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Commissioner	:	M. Picker
Administrative Law Judge	:	S. Park
ORA Witness	:	Michael Conklin



**REPORT AND RECOMMENDATIONS
ON INCOME TAXES, TAXES OTHER THAN INCOME,
GENERAL OFFICE RATE BASE, SERVICE COMPANY
ALLOCATION AND SPECIAL REQUEST #3**

Application 16-07-002

San Francisco, California

February 13, 2017

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MEMORANDUM

1 The requests and data presented by California American Water (“Cal Am”) in
2 Application (“A.”) A.16-07-002 were examined in order to provide the Commission with
3 recommendations that represent the interests of ratepayers for safe and reliable service at
4 lowest cost. Suzie Rose is ORA’s project lead for the proceeding. Richard Rauschmeier
5 is ORA’s oversight supervisor. Paul Angelopulo and Kerriann Sheppard are ORA’s legal
6 counsel.

7 Although every effort was made to comprehensively review, analyze and provide
8 the Commission with recommendations on each ratemaking and policy aspect presented
9 in the application, the absence from ORA’s testimony of any particular issue does not
10 necessarily constitute its endorsement or acceptance of the underlying request,
11 methodology, or policy position related to that issue.

I. INCOME TAXES

A. INTRODUCTION

This chapter presents the results of ORA’s analysis of Cal Am’s Income Tax expenses for Test Year (“TY”) 2018 related to General Rate Case (“GRC”) A.16-07-002. For ratemaking purposes, Income Tax expenses consist of the Federal Income Tax (“FIT”) and California State Income Tax, referred to as the California Corporate Franchise Tax (“CCFT”). Income Tax expenses are part of a utility’s normal Cost of Service and thus are funded by its ratepayers. Accordingly, this chapter contains recommendations for Cal Am’s TY 2018 Income Tax expenses.

The recommendations are based on an analysis of Cal Am’s application, testimony, workpapers, and responses to discovery requests. In addition, ORA reviewed previous Commission rulings, information contained within the Internal Revenue Service (“IRS”) Internal Revenue Code (“IRC”), and information from the California Franchise Tax Board (“FTB”) when appropriate. The remainder of this chapter consists of a summary of recommendations, followed by a discussion section that includes the background and rationale for each recommendation.

1 **B. SUMMARY OF RECOMMENDATIONS**

2 1. The Commission should adopt a 15% corporate tax
3 rate for Cal Am’s TY 2018 FIT expense forecast.

4 2. Cal Am should deduct the 2017 adopted amount of
5 CCFT in rates from the TY 2018 FIT expense.

6 3. The Commission should adopt ORA’s methodology
7 for calculating Cal Am’s IRC Sec. 199 Domestic
8 Production Activities Deduction.

9 **C. DISCUSSION**

10 For real-world Federal Income Tax purposes, Cal Am is a subsidiary of American
11 Water Service Company (“American Water”), and is consolidated with American
12 Water’s other subsidiaries on American Water’s Federal Income Tax return. For
13 California ratemaking purposes, the Commission’s method for calculating Federal
14 Income Tax expense is known as “normalization,” which entails calculating and
15 including in rates what Cal Am’s FIT liability would be if it were an unconsolidated
16 California corporation.

17 Under the normalization method, depreciation expense for FIT ratemaking is
18 calculated using the straight-line book value method, instead of using an accelerated
19 depreciation schedule. The difference between straight-line book depreciation and the
20 real-world accelerated tax depreciation schedule gives rise to a balance in Accumulated
21 Deferred Federal Income Taxes (“ADFIT”). For ratemaking purposes, the ADFIT
22 balance acts as a reduction from rate base which benefits ratepayers, while outside of
23 ratemaking the utility benefits due to its realization of either a reduced real-world tax
24 liability, or in some cases a net operating loss that can be applied to reduce other tax
25 years’ liability.

1 1. **Income Tax Rates**

2 Cal Am forecasts its TY 2018 Income Tax Expense using rates of 8.84% for
3 CCFT and 35% for FIT expense. The Commission should adopt the 8.84% tax rate for
4 CCFT expense and a 15% tax rate to forecast FIT expense for TY 2018. The
5 recommendation of a 15% tax rate to forecast the FIT expense is based on the stated
6 policy goals of the Trump administration, which specify:

7 “The Trump Plan will lower the business tax rate from 35 percent to 15 percent,
8 and eliminate the corporate alternative minimum tax. This rate is available to all
9 businesses, both small and large, that want to retain the profits within the
10 business.”¹

11 Indeed, the Trump nominee for Treasury Secretary Steven Mnuchin restated the
12 administration’s 15% corporate tax rate goal during a recent interview with business
13 media:

14 **MNUCHIN: Our number one priority is tax reform. This will be that largest**
15 **tax change since Reagan.** We’ve talked about this during the campaign. Wilbur
16 and I have worked very closely together on the campaign. We’re going to cut
17 corporate taxes which will bring huge amounts of jobs back to the United States.

18 KERNEN: Where do you think you can get to on that?

19 **MNUCHIN: We’re going to get to 15%** and bring a lot of cash back into the U.S.²

20 The Commission should adopt a 15% FIT rate for TY 2018 because that is the
21 most likely estimate at this time. Furthermore, there is no evidence that Cal Am’s tax
22 rate of 35% will be the prevailing rate in 2018. Due to the sizeable economic impact of
23 the forthcoming corporate tax rate change, if not forecasted properly in this GRC, the

¹ "Tax Plan." Donald J Trump for President. Web. 27 Dec. 2016.
<<https://www.donaldjtrump.com/policies/tax-plan>>.

² Web. 27 December 2016. <<http://www.cnbc.com/2016/11/30/cnbc-transcript-steven-mnuchin-and-wilbur-ross-speak-with-cnbc-squawk-box-today.html>>

result will be a windfall for Cal Am at ratepayers' expense. For example, in Cal Am's Sacramento District alone, changing only the FIT rate from 35% to 15% in Cal Am's proposed revenue requirement model reduces Cal Am's proposed TY 2018 revenue requirement by \$3.6 million. As a result, Cal am would collect \$3.6 million annually from ratepayers that it would not pay in income tax. The table below demonstrates the difference in Cal Am's proposed revenue requirement by district when adjusting for the new 15% tax rate.

Table 1-1. Impact of Tax Rate Change on Revenue Requirement

	Cal Am's Proposed Rev. Requirement	Rev. Requirement Using 15% FIT rate	\$ Difference	Proposed Rev. Req. Reduction %
(\$ in thousands)				
Monterey	\$66,522.0	\$63,562.9	\$2,959.1	4.45%
Toro	\$629.6	\$611.0	\$18.6	2.95%
Garrapata	\$155.1	\$143.3	\$11.8	7.61%
Monterey WW	\$3,686.0	\$3,635.8	\$50.2	1.36%
Los Angeles	\$39,308.6	\$37,167.6	\$2,141.0	5.45%
Sacramento	\$61,881.0	\$58,204.5	\$3,676.5	5.94%
Ventura	\$40,009.7	\$38,893.9	\$1,115.8	2.79%
San Diego	\$31,156.9	\$30,569.1	\$587.8	1.89%
Larkfield	\$3,474.6	\$3,315.0	\$159.6	4.59%
Totals	\$246,823.5	\$236,103.1	\$10,720.4	4.34%

As seen in the table above, the impact of adopting the FIT rate change from 35% to 15% reduces Cal Am's TY 2018 proposed revenue requirement by \$10.7 million.³ In order to prevent a windfall to Cal Am at the expense of its ratepayers, it is imperative that the Commission adopt at 15% Federal Income Tax rate for Cal Am in this proceeding.⁴

³ Cal Am's proposed revenue requirement from workpaper ALL_CH02_SE_RO. Adjusting only the FIT rate to 15% results in the Rev. Requirement amounts shown in Table 1-1.

⁴ Also see section III: Return on General Office Rate Base for ORA's recommendation to reduce Cal Am's pre-tax Cost of Capital rate resulting directly from adopting the 15% corporate income tax rate.

2. CCFT expense deduction from FIT

The IRS allows a taxpayer to deduct CCFT when calculating its Federal Income Tax expense. At issue in this GRC is determining the correct method for calculating the CCFT deduction for Cal Am when forecasting FIT expense in TY 2018. According to the IRS, “for federal income tax purposes, a taxpayer that uses an accrual method of accounting incurs a liability for California franchise tax in the taxable year following the taxable year in which the tax is incurred.”⁵ Thus, according to the IRS, the amount of the deduction should be based on the CCFT amount incurred in the year before the Test Year. Deducting the amount of CCFT paid in the prior year when forecasting the TY FIT expense is also a long-standing Commission methodology first adopted in D.89-11-058.⁶

D.89-11-058 also remains the Commission’s most authoritative decision regarding the methodology for calculating the prior-year’s CCFT deduction. The Commission adopted the method referred to as “DRA’s Alternative 2” for calculating the CCFT deduction.⁷ “DRA’s Alternative 2” makes clear that the amount of CCFT deducted in the Test Year from Federal Income Tax should be based on the amount of CCFT adopted in rates:

“Require that test year and attrition year CCFT estimates adopted in rates be specifically defined and made available to the Commission staff responsible for putting together the FIT (federal income tax) estimates for the following attrition or test year so that there is no time lag in CCFT deductibility. The prior years estimated CCFT collected in rates would always be available as a deduction for the test or attrition year FIT calculation.”⁸

⁵ IRC Sec. 461(d) and IRS Rev. Rul. 2003-90. Retrieved Web. 27 December 2016
<http://www.irs.gov/2003-33_IRB/ar10.html>

⁶ D.89-11-058, p. 10. Conclusion of Law 1.

⁷ D.89-11-058, p. 9. “We will adopt DRA’s Alternative 2.”

⁸ D.89-11-058, p. 7.

1 In this GRC, the Commission is setting rates for TY 2018, meaning the
2 appropriate CCFT deduction should be the CCFT amount adopted for 2017. These
3 amounts are found in Cal Am's attrition filings made in November 2016, with an
4 effective date of January 2017.

5 Cal Am's methodology for determining the TY 2018 CCFT deduction disregards
6 D.89-11-058 and "DRA Alternative 2," and uses an estimate of 2017 CCFT instead of the
7 amount adopted in rates. Cal Am's method begins with estimated revenues at present
8 rates and then subtracts estimated 2017 expenses to arrive at its state taxable income for
9 2017. Cal Am multiplies this amount by the 8.84% tax rate to arrive at an estimated
10 CCFT amount for 2017. Cal Am then uses its estimated 2017 CCFT amount as the FIT
11 deduction in TY 2018.⁹

12 When asked to explain why Cal Am used an estimate of prior year 2017, Cal Am
13 at first objected to the question, and then partly answered by citing to D.89-11-058:

14 "...In the decision under page 2 on the Opinion Summary the Commission
15 determined for ratemaking purposes utilities should use the prior year's CCFT in
16 the calculation of Federal Income Tax expense by stating 'Therefore the prior
17 years' CCFT number should be used in future ratemaking calculations of federal
18 income tax expense.'"¹⁰

19 However, as stated above, D.89-11-058 requires that the amount of CCFT adopted
20 in rates in the prior year be used as the Test Year CCFT deduction, not an amount
21 estimated by the utility for the prior year. Although Cal Am attempts to rely on D.89-11-
22 058, its estimating methodology is not supported by that Decision. As a result, Cal Am's
23 method should be rejected by the Commission.

⁹ Cal Am workpaper ALL_CH02_SE_RO, all districts' Rev. Req. tabs, column I shows "Estimated 2017"
Rev. Req; Cell I65 shows estimated 2017 CCFT, Cell J67 then subtracts cell I65 to calculate TY 2018
Federal Taxable Income.

¹⁰ Cal Am's response to Data Request ORA MC8-001, Q.3.

Cal Am's methodology is also inappropriate on its face. Cal Am's methodology would seemingly task the Commission with reviewing all of the components of its 2017 estimated revenues and expenses in order to generate the CCFT number, even though the expense amounts used in its 2017 estimate are not adopted data. Instead, Cal Am's estimated 2017 expenses appear to be inflated from adopted amounts, which tends to substantially reduce the amount of the CCFT deduction available for ratepayers in TY 2018. The table below presents a comparison of the amount of 2017 CCFT deduction estimated by Cal Am and the amount of 2017 CCFT adopted in Cal Am's rates.¹¹

Table 1-2. Cal Am's 2017 estimated CCFT vs. adopted 2017 CCFT

	Cal Am's 2017 Estimated CCFT	Adopted 2017 amount of CCFT (attrition filings)
Monterey	\$1,028,400	\$1,117,300
Los Angeles	\$272,400	\$732,000
Sacramento	\$350,800	\$1,212,500
Ventura	\$269,700	\$459,000
San Diego	\$116,100	\$188,000
Larkfield	\$23,800	\$53,000
Total TY 2018 Deduction:	\$2,061,200	\$3,761,800

As shown in the table above, ratepayers are funding \$3.76 million CCFT in adopted rates in 2017. For tax year 2018, the IRS requires California tax payers to deduct the CCFT amount paid in 2017. Therefore Cal Am's 2018 rates should include a combined CCFT deduction for \$3.76 million. Cal Am's estimating methodology results in a combined \$1.7 million reduced tax deduction in TY 2018, which increases Cal Am's revenue requirement by approximately \$595,000.¹²

ORA's methodology uses the adopted prior year CCFT amount as a deduction from FIT and therefore is in compliance with federal tax law and with D.89-11-058,

¹¹ Adopted CCFT data from Cal Am attrition filings for 2017. Advice Letters 1137, 1138, 1139, 1140, 1141, 1142.

¹² $(\$3,761,800 - \$2,061,200) = \$1,700,600 * 35\% \text{ FIT rate} = \$595,210$ additional FIT expense from Cal Am's use of a lower estimated CCFT deduction than 2017 adopted amounts.

1 where the Commission adopted a method referred to as “DRA Alternative 2.”¹³ Cal
2 Am’s method uses an estimate of the prior year amount of CCFT, which is not supported
3 by D.89-11-058, and is unfair to ratepayers. For the reasons stated above, the
4 Commission should adopt ORA’s methodology for forecasting Cal Am’s CCFT
5 deduction in this GRC.

6 **3. IRC Sec. 199 Domestic Production Activities**
7 **Deduction (“DPAD”).**

8 The American Jobs Creation Act of 2004 established IRC Section 199, which
9 allows business taxpayers a deduction for a certain percentage of qualifying income from
10 taxable income. IRC Section 199 also contains the instructions for the taxpayer applying
11 the DPAD deduction. Since 2009, the DPAD deduction has allowed a deduction amount
12 equivalent to 9% of the lesser of the Qualified Production Activities Income (QPAI) of
13 the taxpayer for the taxable year, or taxable income for the taxable year.¹⁴ The DPAD
14 deduction provides a benefit to utilities and ratepayers in that it reduces taxable income
15 and therefore FIT expense. As a result, the larger the DPAD deduction amount
16 forecasted into rates, the greater the benefit to ratepayers.

17 In A.16-07-002, Cal Am’s DPAD forecasting methodology begins with a taxable
18 income amount (before any deduction for CCFT and before applying the DPAD). Cal
19 Am then deducts (subtracts) the “current year” TY 2018 CCFT forecast to arrive at a TY
20 2018 taxable income amount before the DPAD. Cal Am then applies a percentage of
21 water produced multiplier to get a DPAD taxable income. Cal Am applies the 9% rate to
22 this amount to estimate the DPAD amount that Cal Am uses as a deduction in its TY
23 2018 FIT calculation.¹⁵

¹³ D.89-11-058, p. 9.

¹⁴ IRC Sec.199(a).

¹⁵ Cal Am workpaper ALL_CH02_SE_RO, tabs (all districts) “Rev Req”, rows 149-184.

1 Cal Am's deduction of the TY 2018 CCFT amount for calculating taxable income
2 for the DPAD is incorrect. As discussed in Item 2 above, according to the IRS, the
3 amount of CCFT a taxpayer is allowed to deduct in a tax year is based on the amount of
4 CCFT paid in the year prior.¹⁶ The DPAD itself is based on 9% of the lesser of QPAI or
5 taxable income for the taxable year. As a result, the Commission should adopt a DPAD
6 treatment for Cal Am that deducts the prior year's 2017 CCFT, not the current TY 2018
7 year amount. Although the overall revenue requirement impact of this recommendation
8 is small, the Commission should require consistency from Cal Am.¹⁷ Consistent with
9 ORA's recommendation in Item 2 above, the CCFT deduction for calculating the DPAD
10 should be based on the adopted CCFT in 2017 (the year prior to the Test Year).

11 Cal Am's use of the TY 2018 CCFT amount to calculate taxable income for the
12 DPAD is also inconsistent within its own basic FIT methodology. As discussed in Item 2
13 above, when calculating FIT expense for TY 2018, Cal Am deducts an estimate of the
14 prior year's 2017 CCFT to get the TY 2018 taxable income. However, when calculating
15 the separate DPAD deduction in the same FIT expense forecast, Cal Am deducts the
16 comparatively larger TY 2018 CCFT amount from taxable income, lessening the
17 deduction value. The result of Cal Am's inconsistent methodology is that both of its
18 chosen CCFT treatments minimize deduction amounts, which maximizes the TY 2018
19 FIT expense. To illustrate, in Los Angeles County, Cal Am calculates TY 2018 FIT
20 liability starting with \$39,308.6 in revenues decreased by \$30,853.8 operating expenses
21 and a \$70.9 DPAD to arrive at \$8,383.9 taxable income.¹⁸ Cal Am then **deducts 2017**
22 **estimated CCFT \$272.4** to get \$8,111.5 taxable income.¹⁹ However, to calculate the
23 above \$70.9 DPAD, Cal Am started with \$39,308.6 in revenues decreased by \$30,853.8

¹⁶ IRC Sec. 461(d) and IRS Rev. Rul. 2003-90. Web. 27 December 2016 <https://www.irs.gov/2003-33_IRB/ar10.html>

¹⁷ Approximate revenue requirement impact across all districts is < \$2,000 when combined with ORA's other recommendations.

¹⁸ Cal Am workpaper ALL_CH02_SE_RO, tab "LAC Rev Req", cells J95-J115. (\$ in thousands).

¹⁹ Cal Am workpaper ALL_CH02_SE_RO, tab "LAC Rev Req", cell J115. (\$ in thousands).

1 operating expenses and then **chose to deduct the 2018 CCFT amount \$747.4 instead of**
2 **\$272.4 from 2017**, making the DPAD deduction smaller than if Cal Am had been
3 consistent and deducted the 2017 CCFT estimate of \$272.4.²⁰ The result of Cal Am
4 choosing two different CCFT deduction methods is that both methods act separately to
5 maximize the revenue requirement. Cal Am uses relatively low estimated 2017 CCFT
6 amounts to deduct from TY 2018 taxable income, which increases the FIT expense
7 forecast. Cal Am then chooses comparatively higher TY 2018 CCFT amounts to deduct
8 during the DPAD calculation, thereby minimizing the DPAD deduction, which also
9 increases the FIT expense forecast.

10 Cal Am explained why it used the TY 2018 CCFT amount for the deduction when
11 it calculated the DPAD:

12 “... because the issue of working cash that was identified by the Commission
13 regarding the CCFT deduction for federal income tax purposes for ratemaking
14 does not apply to the DPAD. In addition, the DPAD did not exist when D.89-11-
15 058 was adopted.”²¹

16 Cal Am’s explanation lacks merit. As explained above, the DPAD is based on IRC Sec.
17 199 that allows a deduction for 9% of the lesser of either: QPAI, **or** taxable income for
18 the taxable year, and the IRS directs that taxable income be calculated deducting CCFT
19 from the prior year.²² Furthermore, the “Working Cash” section of D.89-11-058 is
20 irrelevant to the DPAD discussion because the CCFT deduction for FIT purposes for
21 ratemaking was addressed by the Commission in the “Tax Rate Change” section.²³ As a
22 result, the Commission should reject Cal Am’s inconsistent DPAD methodology that uses

²⁰ DPAD would have been \$109.1 instead of \$70.9 based on: $\$747.4 - \$272.4 = \$475 * .8948 \text{ multiplier} = \$425.03 * 9\% \text{ DPAD} = \38.25 . $\$70.9 + \$38.25 = 109.1$. Cal Am’s method produces lost tax savings of $\$38.25 * 35\% = \13.37 (\$ in thousands.)

²¹ Cal Am’s response to Data Request ORA MC8-001, Q.4.

²² Web. Retrieved 27 December 2016. https://www.irs.gov/irb/2003-33_IRB/ar10.html

²³ D.89-11-058, Tax Rate Change discussion begins on p. 6.

1 TY 2018 CCFT as a deduction. Instead, the Commission should adopt the (prior year)
2 2017 CCFT amount adopted in rates for calculating the TY 2018 DPAD. This
3 recommendation is consistent with D.89-11-058 and IRS regulations.

4 **D. CONCLUSION**

5 For Cal Am's TY 2018, the Commission should adopt a FIT methodology that
6 reaffirms D.89-11-058 by requiring the adopted 2017 CCFT expense be used as the FIT
7 deduction in the Test Year. In addition, the Commission should adopt a DPAD
8 methodology that is consistent and uses the same prior-year CCFT amount that is used as
9 a deduction in the Test Year FIT calculation. Finally, the Commission should adopt a
10 15% corporate tax rate for Cal Am in order to prevent a windfall to the company at
11 ratepayer's expense.

II. TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents the results of ORA’s analysis of Cal Am’s forecast for Taxes Other Than Income contained within Cal Am’s GRC A.16-07-002. Taxes Other Than Income consist of Ad Valorem Tax (property tax), Payroll Taxes, and Local Franchise Taxes. ORA’s TY 2018 recommendations for Taxes Other Than Income are primarily based on analysis of Cal Am’s application testimony and workpapers evaluated against suitable criteria imposed by statute. ORA also consulted sources from the California Employment Development Department (“EDD”) when necessary.

B. SUMMARY OF RECOMMENDATIONS

1. Adopt ORA’s correction of Cal Am’s Ad Valorem tax workpaper error found during discovery.
2. Remove the Federal Unemployment Tax Act (“FUTA”) penalty of \$84 per employee.
3. Remove Franchise Fees from the Larkfield district’s rates.

C. DISCUSSION

1. Ad Valorem Taxes

Cal Am forecasts the TY 2018 ad valorem tax expense by dividing the recorded 2015 amount of tax paid by the dollar amount of taxable plant for each ratemaking area to arrive at a percentage of taxable plant. Cal Am then applies this percentage to its TY 2018 forecasted dollar amount of taxable plant.²⁴ However, the 2015 amounts of tax paid used in Cal Am’s percentage of taxable plant calculation were *higher* in each district

²⁴ Cal Am workpaper ALL_CH05_OTAX_RO, tab “INP_Ad Valorem”.

1 than the ad valorem amounts shown as recorded data in Cal Am's workpapers.²⁵ This
2 discrepancy inflates the percentage of taxable plant applied to the Test Year and
3 therefore, inflated ad valorem expense forecasts for each district.

4 During discovery, Cal Am admitted this was an error in its workpapers and
5 provided corrected ad valorem data.²⁶ The difference in ad valorem tax using Cal Am's
6 corrected data results in \$1.2 million less ad valorem tax than the amount forecasted in
7 Cal Am's original application. The Commission should adopt Cal Am's correction when
8 forecasting Cal Am's ad valorem tax expense.

9 2. Payroll Taxes

10 Cal Am calculates payroll taxes based on forecasted payroll expenses for TY
11 2018. Payroll taxes consist of Federal Insurance Contribution Act ("FICA"), Federal
12 Unemployment Tax ("FUTA"), and State Unemployment Tax Act ("SUTA"). FICA
13 taxes include two separate components, Social Security ("OASDI"), and Medicare. In
14 A.16-07-002, Cal Am uses the following tax rates for its payroll tax calculations:

- 15 • OASDI – 6.20%
- 16 • Medicare – 1.45%
- 17 • FUTA – 0.6%
- 18 • SUTA – 6.2%

19 The OASDI, FUTA, and SUTA tax rates are subject to wage caps, while the
20 Medicare tax rate is applied to total wages. Cal Am applies a wage cap equal to the first
21 \$118,500 of an employee's wages in calculating OASDI, and the first \$7,000 of an
22 employee's wages in calculating FUTA and SUTA. The actual FUTA rate is 6%, but the
23 federal government normally provides a *credit* for up to 5.4% resulting in an effective
24 FUTA rate of 0.6% as shown above.

²⁵ Cal Am workpaper ALL_CH05_OTAX_RO, tab "WS1" shows \$4,583,094 recorded 2015 ad valorem; Cal Am's calculation on tab "INP_Ad Valorem" uses \$5,590,403 for tax paid in 2015.

²⁶ Cal Am's response to Data Request ORA MC8-004, Q.1.

1 Cal Am's TY 2018 FUTA forecast also includes a company penalty fee of \$84 per
2 employee ("FUTA penalty").²⁷ Cal Am explains the penalty is the result of a reduction
3 in the 5.4% FUTA credit due to California's "unpaid federal loans" related to the
4 California State Unemployment Insurance fund being depleted.²⁸ In addition, Cal Am
5 attempted to provide evidence suggesting the FUTA penalty fee should be increased to
6 \$105 per year.²⁹

7 However, the Commission should completely remove the FUTA penalty fee from
8 Cal Am's payroll tax forecast due to the recent forecast from the EDD showing that
9 California is on schedule to have repaid its federal loans by 2018:

10 "The FUTA tax credit reduction for 2015 was 1.5 percent, and is forecast to be 1.8
11 percent in 2016, 2.1 percent in 2017, **and no reduction is forecast in 2018 as**
12 **California will have no outstanding loan balance.**"³⁰

13 Because no FUTA credit reduction is forecast for TY 2018, California businesses,
14 including Cal Am, will no longer be subject to the FUTA penalty. Therefore, the
15 Commission should remove any FUTA penalty amount from Cal Am's Payroll Tax
16 expense forecast. The impact of adopting this recommendation reduces Payroll Tax
17 FUTA expense by approximately \$25,200 in TY 2018.³¹

18 3. Franchise Fees

19 Cal Am collects the majority of its Franchise Tax fees through separate surcharges
20 on customer bills, and not within rates. According to Cal Am, "This is the process for all
21 of California American Water's districts across the State, with the exception of

²⁷ Cal Am workpaper "ALL_CH04_O&M_WP_Labor, tab "INP- Labor Benefits", cell BE56.

²⁸ Cal Am's response to Data Request ORA MC8-004, Q.4.a.

²⁹ Cal Am's response to Data Request ORA MC8-004, Q.4.b.

³⁰ EDD. OCTOBER 2016 UNEMPLOYMENT INSURANCE (UI) FUND FORECAST, p. 1.
[Http://www.edd.ca.gov/About_EDD/pdf/edduiforecastoct16.pdf](http://www.edd.ca.gov/About_EDD/pdf/edduiforecastoct16.pdf). Oct. 2016. Web. 27 Dec. 2016.

³¹ 300 employees * \$84 per employee = \$25,200.

1 Sacramento, Toro, and Garrapata.”³² However, Cal Am’s workpapers include a TY 2018
2 forecast for \$7,683 in Franchise Fees for the Larkfield district.³³ During the discovery
3 phase of this proceeding Cal Am agreed the Larkfield forecast should be adjusted to
4 remove \$7,683 from TY 2018.³⁴ As a result, the Commission should remove \$7,683
5 from the Larkfield Franchise Fees forecast.

6 **D. CONCLUSION**

7 The Commission should adopt ORA’s recommendations for Cal Am’s TY 2018
8 Taxes Other Than Income contained herein. Any additional differences between Cal
9 Am’s and ORA’s recommended Taxes Other Than Income expense for TY 2018 are
10 mainly due to differing forecasts for payroll and taxable plant.
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³² Direct Testimony of Jeffrey Linam, p. 14.

³³ Cal Am workpaper ALL_CH05_OTAX_RO, tab “Summary of Costs- Detail WS9-C”, cell Q177.

³⁴ Cal Am’s response to Data Request ORA MC8-010, Q.5.

III. RETURN ON GENERAL OFFICE RATE BASE

A. INTRODUCTION

This chapter presents ORA's analysis and resulting recommendations for Cal Am's Return on General Office ("GO") Rate Base forecast by Cal Am to be recovered from California ratepayers in proceeding A.16-07-002. This proceeding will set rates beginning in Test Year ("TY") 2018; therefore, ORA's recommendations focus on adjustments to Cal Am's TY 2018 forecast. In order to formulate its recommendations, ORA made informational discovery requests from Cal Am, scrutinized Cal Am written testimony and workpapers, researched past Cal Am Settlement Agreements and Commission Decisions, and consulted various outside sources. The remainder of this report presents a summary of ORA's recommendations for Cal Am's TY 2018 followed by a discussion section detailing each of ORA's recommendations.

1 **B. SUMMARY OF RECOMMENDATIONS**

- 2 1. Reduce Cal Am GO plant by amounts that exceed the
3 cap set by the Commission for the Business
4 Transformation Project.
- 5 2. Update Cal Am’s Service Company IT-related plant
6 allocation percentage to account for new customers
7 from recent acquisitions by American Water
8 subsidiaries.
- 9 3. Reduce Cal Am’s pre-tax cost of capital rate from
10 12.38% to 9.94% to reflect new federal income tax rate
11 for TY 2018.

12 **C. DISCUSSION**

13 Cal Am’s forecast for TY 2018 weighted average GO Rate Base includes
14 traditional GO-related plant items such as office equipment, in addition to an allocation
15 for Cal Am’s share of an IT-related project from Cal Am’s parent company, American
16 Water Works Company (“Service Company”). For ratemaking purposes, Cal Am first
17 calculates a weighted average GO Rate Base amount for TY 2018, and then multiplies
18 the GO Rate Base amount by a pre-tax cost of capital ratio of 12.38% to arrive at a total
19 Return on GO Rate Base dollar amount. Cal Am’s pre-tax cost of capital ratio is used to
20 convert a forecasted rate base amount into an equivalent expense dollar amount that
21 allows Cal Am an opportunity to earn its authorized return on rate base. Cal Am then
22 allocates a portion of the total Return on GO Rate Base dollar amount to each district as
23 an expense line item on the Summary of Earnings, based on each district’s percentage of
24 total Cal Am customers.³⁵

³⁵ Cal Am workpaper ALL_CH09_RB_RO, tab “OUT_ CGO_ Return on Rate Base”.

1 For Test Year 2018, Cal Am forecasts \$20,761,007 weighted average rate base,
2 resulting in a pre-tax cost of capital total GO Return on Rate Base of \$2,570,213.³⁶
3 However, for TY 2018, the Commission should adopt a \$16,937,813 weighted average
4 rate base with a GO Return on Rate Base of \$1,683,619, which is \$886,594 less than Cal
5 Am's forecast.

6 The difference between Cal Am's and ORA's recommended GO Return on Rate
7 Base is the result of updated funding levels for Service Company's Business
8 Transformation Project, ORA's recommended increase in the allocation of Service
9 Company plant to American Water's subsidiaries, and an adjustment to Cal Am's pre-tax
10 cost of capital rate to reflect the forthcoming 2018 corporate federal income tax rate
11 decrease.³⁷

12 1. **Business Transformation Project Adjustments**

13 In A.10-07-007, Cal Am requested funding for its portion of parent company
14 American Water's implementation of Enterprise Resource Planning integrated software
15 package SAP. In that case, the amount the Commission allowed Cal Am for funding
16 American Water's SAP implementation was \$14,181,000. This project is commonly
17 referred to as the Business Transformation Project ("BT Project"). In the resulting GRC
18 Decision, D.12-06-016, the Commission provided that "Total recovery for the business
19 transformation project will be capped at \$14 million, reduced by 5.3% in recognition of
20 the benefits of the business transformation project that inure to the parent company's
21 unregulated affiliates."³⁸ As a result, the total Commission-authorized amount related to
22 Business Transformation as stated in D.12-06-016 was \$13,258,000.

23 During Cal Am's following GRC A.13-07-002 for Test Year 2015, Cal Am sought
24 additional capital funding for the BT Project allocation which would have brought the
25 authorized total up to \$17,831,200, an increase of \$4,573,200 over the Commission's

³⁶ Ibid.

³⁷ See ORA's Chapter on Income Taxes.

³⁸ D.12-06-016, p. 64

1 previously authorized project cap stated in D.12-06-016. Cal Am's \$4,573,200 requested
2 increase included \$1,269,500 to account for the increase in California's total regulated
3 customer percentage allocation from 5.06% to 5.51% resulting from American Water
4 selling two regulated subsidiaries.³⁹

5 A.13-07-002 ultimately resulted in a Settlement Agreement between ORA and
6 Cal Am where Cal Am was authorized to include its requested BT Project increase of
7 \$4,573,200 in rates.

8 **a) Reduce Cal Am's 2014 and 2015 IT**
9 **Investment amounts related to BT Project**
10 **cost overruns.**

11 In the current proceeding, Cal Am forecasts a Return on GO Rate Base amount for
12 TY 2018 that includes Information Technology Investment ("IT Investment") amounts
13 spent in 2014 and 2015 for the BT Project that are substantially greater than IT
14 Investment amounts approved and agreed to in previous GRCs. In addition to the
15 \$4,573,200 BT Project adjustment, further adopted 2014 and 2015 IT Investment plant
16 addition amounts are \$414,000 and \$634,800, respectively.⁴⁰ However, Cal Am's
17 recorded IT Investment was \$1,869,468 in 2014 and \$2,243,964 in 2015,⁴¹ with a net
18 increase over the authorized IT Investment amount of \$3,064,632. This increase of
19 \$3,064,632 for IT Investment is also in addition to the \$4,573,200 separately adopted for
20 the BT Project adjustment in the last GRC.

21 Cal Am admits that these additional IT Investment cost overruns of \$3,064,632 are
22 "largely the result of increased go-live stabilization costs for new IT systems related to
23 the Business Transformation project."⁴² In order to justify recovery for these additional

³⁹ A.13-07-002, Direct Testimony of Jeffrey M. Dana, p. 17.

⁴⁰ A.16-07-002, Direct Testimony of Schubert, p. 30.

⁴¹ Ibid.

⁴² Ibid.

1 amounts, Cal Am attempts to frame the BT Project cost increases as “new IT systems”⁴³
2 or “new costs that became apparent only after the Commission reviewed the requests in
3 the previous California rate case.”⁴⁴ The Commission should disregard Cal Am’s claims
4 because these IT Investment cost overruns are directly related to the implementation of
5 the BT Project and in D.12-06-016 the Commission put a clear capped amount on Cal
6 Am’s recovery of BT Project costs.

7 As mentioned above, D.12-06-016 examined Cal Am’s request for additional
8 recovery for the BT Project and capped total recovery for the project at \$13,258,000.⁴⁵
9 In D.12-06-016 the Commission explained how Cal Am’s estimate of American Water’s
10 total BT Project original cost estimate increased from \$280 million to \$317 million, with
11 Cal Am’s allocation increasing proportionately. The Commission also described that Cal
12 Am’s position on how the BT Project costs should be recovered had “evolved over the
13 course of the proceeding.”⁴⁶ The Commission ultimately dismissed Cal Am’s requested
14 increase for total project costs to \$317 million by basing the cap on the original \$280
15 million with Cal Am’s portion set at \$14 million.⁴⁷ As mentioned above, the result of the
16 Settlement Agreement in Cal Am’s previous GRC increased the authorized amount for
17 the BT Project by \$4,573,200. No additional BT Project costs have been authorized and
18 the Commission should reject Cal Am’s latest request for additional funds.

19 Contrary to Cal Am’s assertion, the Commission has already considered the
20 possibility of BT Project cost overruns and emphasized Cal Am’s management’s
21 responsibility:

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Commission rounded down to \$14 million, reduced by 5.3% for unregulated affiliate usage.

⁴⁶ D.12-06-016, p. 60.

⁴⁷ D.12-06-016, p. 64.

1 “As with most estimates in a general rate case, if Cal Am realizes greater savings
2 than those identified, Cal Am retains the savings. **If project costs exceed the**
3 **amount authorized, Cal Am absorbs them.**”⁴⁸
4

5 The Commission should remove the \$3,064,632 combined 2014 and 2015 BT
6 Project cost overruns from the IT Investment forecast for TY 2018 Return on GO Rate
7 Base because ratepayers should not bear the burden of Cal Am’s management’s
8 responsibility. In accordance with D.12-06-016, BT Project costs have exceeded the
9 amount authorized by \$3,064,632; therefore Cal Am should absorb the excess costs.

10 **b) Decrease Cal Am’s allocation of BT Project**
11 **and IT-related Costs due to subsidiary**
12 **acquisitions in Pennsylvania and New Jersey.**

13 In the current proceeding, Cal Am forecasts a Return on GO Rate Base amount for
14 TY 2018, the majority of which is derived from the portion of IT-related plant allocated
15 from the Service Company to Cal Am. In Cal Am’s previous GRC, Cal Am witness Jeff
16 Dana requested \$1.26 million based on an allocation increase from 5.06% to 5.51% of
17 Service Company costs related to the BT Project.⁴⁹ According to the testimony of Jeff
18 Dana, the reason for the requested percentage increase over the 5.06% used in the
19 previous GRC was that:

20 “The allocation is done based on the estimated customer numbers. With the sale
21 of certain subsidiaries like Arizona American Water and New Mexico American
22 Water from the American Water system, the allocation to the remaining states has
23 increased.”⁵⁰

24 Based on recent acquisitions made by American Water subsidiaries, Pennsylvania
25 American Water and New-Jersey American Water, Cal Am’s regulated customer count

⁴⁸ D.12-06-016, p. 63.

⁴⁹ A.13-07-002, Direct Testimony of Jeffrey M. Dana, p. 16.

⁵⁰ A.13-07-002, Direct Testimony of Jeffrey M. Dana, p. 17.

1 has now decreased as a proportion of total American Water customers. The table below
 2 details American Water's recently announced or completed acquisitions.

Table 3-1. American Water Works' Acquisitions Since Year-End 2015

System	State	# additional customers	acquisition close date
McKeesport Waste Water	PA	22,000	2017 ¹
Sewer Authority of the City of Scranton, Pennsylvania	PA	31,000	2016
Total Pennsylvania American Water additions		53,000	
Shorelands Water Company	NJ	11,000	2016 ¹
Environmental Disposal Corporation (EDC)	NJ	5,300	2016
Roxiticus Water Company	NJ	100	2016
Total New Jersey American Water additions		16,400	
Adams Ranch Mutual Water Company	CA	176	2016
Geyserville	CA	318	2016
Meadowbrook	CA	1,650	2016
Total Cal Am additions		2,144	
¹ Announced			

3 Following Cal Am's logic from A.13-07-002, the Service Company allocation to
 4 Cal Am for BT-project and IT-related plant should now *decrease* accordingly for TY
 5 2018, based on an updated estimated number of customers.

6 **Estimated Number of Customers**

7 Cal Am provided the following table showing its 2015 year-end customer count:⁵¹

⁵¹ Cal Am's response to Data Request ORA-MC8-006, Q.5. Attachment 1.

Table 3-2. American Water Works' 2015 year-end Number of Customers

COMPANY NAME	WATER	WASTEWATER	TOTAL	less Dual customer adj	Adjusted Total Customer	% of total Serv. Co.
INDIANA-AMERICAN	295,530	464	295,994	(440)	295,554	9.43%
IOWA-AMERICAN	62,958		62,958	-	62,958	2.01%
KENTUCKY-AMERICAN	128,374	600	128,974	(570)	128,404	4.10%
MARYLAND-AMERICAN	4,978		4,978	-	4,978	0.16%
CALIFORNIA-AMERICAN	172,280	2,662	174,942	(697)	174,245	5.56%
MICHIGAN-AMERICAN	3,533		3,533	-	3,533	0.11%
MISSOURI-AMERICAN	461,396	11,849	473,245	(10,521)	462,724	14.77%
NEW JERSEY-AMERICAN	619,602	40,978	660,580	(37,283)	623,297	19.89%
PENNSYLVANIA-AMERICAN	651,851	20,556	672,407	(18,889)	653,518	20.85%
ILLINOIS-AMERICAN	281,258	31,800	313,058	(29,696)	283,362	9.04%
TENNESSEE-AMERICAN	79,101		79,101	-	79,101	2.52%
VIRGINIA-AMERICAN	59,116	20,351	79,467	(19,333)	60,134	1.92%
WEST VIRGINIA-AMERICAN	167,991	1,046	169,037	(994)	168,043	5.36%
HAWAII-AMERICAN	-	9,820	9,820	-	9,820	0.31%
NEW YORK-AMERICAN	124,186	411	124,597	(390)	124,207	3.96%
Total Regulated	3,112,154	140,537	3,252,691	(118,813)	3,133,878	100.00%

As shown in the table above, Cal Am's year-end 2015 calculation results in 5.56% of total Service Company customer percentage for Cal Am.⁵² However, for TY 2018 forecasting, the Commission should disregard Cal Am's calculation because it fails to account for the new customers from recent acquisitions, and it incorrectly adjusts to decrease customers at subsidiaries with customers that are both water and wastewater customers.⁵³

For purposes of allocating Service Company costs, water and wastewater services provided by subsidiaries should be counted as separate customers, even if the same physical customer is receiving those services. The reason is that providing an entire additional service, such as wastewater, to customers already receiving water service requires additional Service Company support costs. A recent American Water Works press release alludes to the Service Company impact of Pennsylvania American Water's

⁵² Cal Am's response to Data Request ORA-MC8-003, Q.2. Attachment 1 shows that Cal Am uses 5.57% to allocate Service Company IT-related plant to Cal Am.

⁵³ Cal Am's table above refers to water customers that are also wastewater customers as "dual customers".

1 acquisition of the Scranton Sewer Authority's ("SSA") assets, even though the SSA
2 customers were already served by Pennsylvania American Water.

3 "All of the approximately 80 SSA workers who operate the wastewater system
4 have been offered employment. The employees are represented by the Teamsters
5 Union, Local 229, who voted on Dec. 2, to ratify a new contract offered by
6 Pennsylvania American Water. **The employees gain immediate access to the
7 training, development and career opportunities in any of the operations of
8 Pennsylvania American Water or its parent company.**"⁵⁴

9 Clearly, the addition of 80 new union employees, along with a newly acquired
10 wastewater system, will not have a zero dollar impact on Service Company costs.
11 Additional employees increase HR Services and Human Resources departments while the
12 additional wastewater service increases potential for calls to the Service Company's
13 Customer Service Center business function. Furthermore, negotiating, financing and
14 getting approvals for the acquisition itself all require additional costs incurred at the
15 Service Company such as in the Legal, Finance, Investor Relations, External Affairs and
16 Regulatory departments. As a result, using Cal Am's methodology skews Service
17 Company costs away from subsidiaries with many water/wastewater dual customers and
18 toward subsidiaries such as Cal Am with relatively few dual water/wastewater customers.

19 The Commission should adopt an estimated number of customers percentage
20 based on counting dual water/wastewater customers separately and including new
21 customers from American Water's recent acquisitions. As shown in the table below, Cal
22 Am's relative number of total American Water customers will decrease from 5.56% in
23 2016 to 5.33% in 2018.⁵⁵

⁵⁴ Web. 1/10/17 <http://www.businesswire.com/news/home/20161229005256/en/Pennsylvania-American-Water-Closes-Acquisition-Scranton-Wastewater>.

⁵⁵ Cal Am's response to Data Request ORA MC8-003, Q. 2 uses 5.57% to allocate Service Company IT-related plant in the current GRC to Cal Am.

Table 3-3. Estimated TY 2018 Number of Customers

COMPANY NAME	WATER	WASTEWATER	TOTAL	Acquisition Customers (Table 3-1)	Adjusted Total Customer	% of total Service Co.
INDIANA-AMERICAN	295,530	464	295,994		295,994	8.90%
IOWA-AMERICAN	62,958		62,958	-	62,958	1.89%
KENTUCKY-AMERICAN	128,374	600	128,974		128,974	3.88%
MARYLAND-AMERICAN	4,978		4,978	-	4,978	0.15%
CALIFORNIA-AMERICAN	172,280	2,662	174,942	2,144	177,086	5.33%
MICHIGAN-AMERICAN	3,533		3,533	-	3,533	0.11%
MISSOURI-AMERICAN	461,396	11,849	473,245		473,245	14.24%
NEW JERSEY-AMERICAN	619,602	40,978	660,580	16,400	676,980	20.36%
PENNSYLVANIA-AMERICAN	651,851	20,556	672,407	53,000	725,407	21.82%
ILLINOIS-AMERICAN	281,258	31,800	313,058		313,058	9.42%
TENNESSEE-AMERICAN	79,101		79,101	-	79,101	2.38%
VIRGINIA-AMERICAN	59,116	20,351	79,467		79,467	2.39%
WEST VIRGINIA-AMERICAN	167,991	1,046	169,037		169,037	5.08%
HAWAII-AMERICAN	-	9,820	9,820	-	9,820	0.30%
NEW YORK-AMERICAN	124,186	411	124,597		124,597	3.75%
Total Regulated	3,112,154	140,537	3,252,691	71,544	3,324,235	100.00%

1 Based on the table above, for TY 2018 the Commission should adopt a 5.33%
2 ratio to allocate BT Project-related (including shared IT-related) costs from Service
3 Company to Cal Am.⁵⁶ As discussed above, in Cal Am's previous GRC, the company
4 requested, and the Commission adopted, an increase to BT Project costs from \$14.1
5 million total project costs to approximately \$15.4 million based solely on the increase in
6 Cal Am customers to 5.51%.⁵⁷ The table below shows the difference between Cal Am's
7 BT Project (and shared IT-related Service Company) allocations and the BT Project and
8 IT-related allocations resulting from adopting the 5.33% allocation.⁵⁸

⁵⁶ For 2015 customer count data, see Cal Am's response to Data Request ORA MC8-006, Q.5.

⁵⁷ \$280 million total BT * 5.6% customers = \$14.1 million, \$280 million total BT * 5.51% customers = \$15.4 million. \$15.4 million - \$14.1 million = \$1.3 million BT increase in last GRC due only to customer % increase.

⁵⁸ Cal Am's response to Data Request ORA MC8-003, Q.2.

Table 3-4. Adjustment to Cal Am's TY 2018 GO Plant

Adjustment to Cal					
	Am's previous GRC adjustment	Forecasted 2016	Forecasted 2017	Forecasted 2018	Total Adj. TY 2018
(in dollars)					
BT Project/ITS- related (SAP)	\$15,450,456	\$2,091,014	\$2,088,680	\$1,671,253	
% allocated	5.51%	5.572%	5.572%	5.571%	
Grossed up amount	\$280,407,550	\$37,527,178	\$37,485,291	\$29,999,149	
% with new acquisitions	5.33%	5.33%	5.33%	5.33%	
Adjusted plant amount:	\$14,945,722	\$2,000,199	\$1,997,966	\$1,598,955	
(Adjustment/Difference)	(\$504,734)	(\$90,816)	(\$90,714)	(\$72,298)	(\$758,562)

As shown in the table above, the difference between using 5.57% and 5.33% to allocate Service Company BT Project and IT-related costs results in a \$758,562 reduction to Cal Am's TY 2018 plant balance. This GO rate base reduction results in \$93,910 less Return on GO Rate Base forecasted in TY 2018 compared to Cal Am's original forecasted amount.⁵⁹

2. Reduce Cal Am's pre-tax Cost of Capital rate to 9.95%.

Cal Am's calculation for forecasting its Return on GO Rate Base multiplies the forecasted GO rate base amount by the pre-tax cost of capital rate of 12.38% to convert the rate base return into an expense line item amount. For TY 2018, the Commission should adopt a pre-tax cost of capital rate for Cal Am that takes into account the forecasted 15% federal income tax rate as stated in ORA's chapter on Income Taxes.

As detailed in ORA's chapter on Income Taxes, the forecasted corporate federal income tax rate for TY 2018 is 15%. Because Cal Am's pre-tax cost of capital rate of 12.38% is based on the 2016 income tax rate of 35%, the Commission should adopt an

⁵⁹ \$758,562 TY 2018 plant reduction *12.38% Cal Am's pre-tax Cost of Capital = \$93,910 less return on rate base.

1 updated 9.94% pre-tax cost of capital rate to reflect the new tax rate. The pre-tax cost of
2 capital rate of 9.94% for TY 2018 is established by the following calculation:⁶⁰

Table 3-5. Pre-Tax Cost of Capital Calculation w/ 15% FIT rate.

Additional Revenue	\$100.00	Additional Revenue	100
State Income Tax (CCFT)	<u>\$8.84</u>	Total Tax Paid	<u>-\$22.51</u>
Taxable for Federal	\$91.16	After-Tax profit	\$77.49
Federal Tax (15%)	\$13.67		
Total Tax Paid	\$22.51	Pre-Tax Profit	100
Effective Tax Rate	22.51%	Divide by after tax profit	\$77.49
		Tax Gross Up Factor	1.29
	Capital	Weighted	Tax Gross Up
	Structure	Cost	Factor (from above)
Equity	9.99%	53%	5.29%
Debt	6.63%	47%	3.12%
		<u>8.41%</u>	Pre-Tax Cost of Capital:
			9.94%

3 The difference between using Cal Am's pre-tax cost of capital rate of 12.38%
4 and using 9.94% results in \$506,569 less Return on GO rate base collected from
5 ratepayers, based on Cal Am's unadjusted forecast of \$20,761,007 GO rate base. Based
6 on ORA's adjusted forecast of \$16,937,813 GO rate base, the impact of using 9.94% pre-
7 tax cost of capital rate instead of 12.38% is reduced to \$413,282 less Return on GO rate
8 base. The following table demonstrates the difference between Cal Am and ORA:

⁶⁰ Calculation based on modifying the FIT rate to 15% on Cal Am's response to Data Request ORA MC8-009, Q. 2.a. Attachment.

Table 3-6. Comparison of TY 2018 Return on GO Rate Base

	Cal Am	ORA
Unadjusted Weighted Average Rate Base	\$20,761,007	\$20,761,007
Adjustment to Remove BT Project Cost Overruns	-	(\$3,064,632)
Customer Count Adjustment	-	(\$758,562)
Adjusted Weighted Avg. Rate Base	\$20,761,007	\$16,937,813
Pre-Tax Cost of Capital	12.38%	9.94%
TY 2018 Return on GO Rate Base	<u>\$2,570,213</u>	<u>\$1,683,619</u>

D. CONCLUSION

For the reasons stated above, the Commission should adopt a 9.94% pre-tax cost of capital rate for Cal Am, an allocation factor of 5.33% of Service Company BT Project-related plant, and remove \$3,064,632 from TY 2018 GO rate base for BT Project cost overruns. These combined recommendations result in a Return on GO Rate Base amount of \$1,683,619 which is \$886,594 less than Cal Am's TY 2018 forecast.

IV. SERVICE COMPANY ALLOCATION

A. INTRODUCTION

This report presents ORA's analyses and recommendations regarding the allocation of parent company American Water Works' ("Service Company") costs forecasted by Cal Am to be recovered from California ratepayers in GRC A.16-07-002. Cal Am's parent company is headquartered in Voorhees, New Jersey and provides numerous corporate-level General Office ("GO") services to its various subsidiaries, including Cal Am.⁶¹ The Service Company costs also include the Belleville, Illinois Laboratory ("Central Lab") and Customer Service Centers ("CSC") located in Alton, Illinois, and Pensacola, Florida.

Cal Am provides water or wastewater services to nine districts in California. For ratemaking purposes, each district's Summary of Earnings workpaper receives an allocation of the total Service Company costs.⁶² Once a total Service Company amount is forecast, Cal Am uses a ratio based on each Cal Am district's percent of total Cal Am customers to allocate the total Service Company cost to each Cal Am district. For example, if the Los Angeles County district has 15.84% of Cal Am customers, Cal Am allocates 15.84% of the total Service Company allocation to the Los Angeles County district.

ORA analyzed Cal Am's workpapers and information provided by Cal Am through the discovery process, conducted research from outside sources, and reviewed past Commission proceedings in order to formulate its recommendations. The remainder of this report contains a summary of recommendations and a general discussion section that is followed by a detailed discussion for each recommendation.

⁶¹ American Water Works is in the process of relocating to Camden, New Jersey.

⁶² Cal Am's local GO activities are supported by the California Corporate General Office headquartered in Coronado, California. See Testimony of ORA witness Julia Ende for details.

1 **B. SUMMARY OF RECOMMENDATIONS**

- 2 1. The allocation to Cal Am of Service Company costs
3 should be based on the three-year average of recorded
4 allocation factors.
- 5 2. The Commission should adopt a TY 2018 Service
6 Company labor forecast based on recorded 2015
7 payroll expense data increased for expected labor
8 inflation.
- 9 3. The Commission should adopt ORA’s adjustments to
10 Cal Am’s forecasted Employee Incentive plans for the
11 Service Company.
- 12 4. The Commission should remove all costs related to the
13 Business Development function.
- 14 5. The Commission should remove ratepayer funding for
15 charitable donations at the Service Company level.

16

17 **C. DISCUSSION**

18 Cal Am’s parent, Service Company, provides various corporate services for Cal
19 Am as well as the Service Company’s other regulated and market-based subsidiaries.
20 The services provided are organized into twenty Business Functions (“Business
21 Functions”), examples of which include Corporate Finance, Legal, Customer Service
22 Center, IT, Investor Relations, Central Lab and others. The table below shows the twenty
23 Service Company Business Functions and the corresponding TY 2018 dollar amounts
24 allocated by Cal Am for the Service Company expense:⁶³

⁶³ Source: Cal Am response to Data Request MC8-002, q.4.

Table 4-1. Cal Am's Service Company Forecast by Business Function

	2018			
	Labor	Labor Related	Other	Total
Business Development	\$145,564	\$22,049	\$40,573	\$208,185
Central Lab	246,218	68,664	140,633	\$455,515
Corp Admin	0	18,228	1,277,539	\$1,295,766
Customer Service Center (CSC)	1,666,366	722,370	589,251	\$2,977,987
Engineering	40,897	10,273	9,514	\$60,684
External Affairs Communication	292,384	60,618	187,677	\$540,679
Facilities	6,252	1,333	333,522	\$341,107
Finance	1,497,318	356,918	272,519	\$2,126,756
Government Affairs	12,090	1,340	13,631	\$27,061
Health & Safety	46,253	10,414	9,772	\$66,440
HR Services	111,842	33,394	23,461	\$168,697
Human Resources	472,369	103,351	196,146	\$771,866
Information Technology Services (ITS)	1,071,848	252,724	1,049,571	\$2,374,143
Innov & Env Stewardship	71,148	18,206	(17,720)	\$71,634
Investor Relations	13,861	2,062	16,623	\$32,547
Legal	215,675	33,917	96,125	\$345,717
Physical & Cyber Security	69,969	20,074	63,028	\$153,071
Regulated Ops	394,267	31,718	64,386	\$490,370
Regulatory Policy	34,313	7,230	16,468	\$58,011
Supply Chain	86,340	25,381	25,986	\$137,707
Total	\$6,494,975	\$1,800,266	\$4,408,704	\$12,703,945

1 As shown in the table above, Cal Am forecasts \$12,703,945 for its total Service
2 Company allocation in TY 2018.⁶⁴ Cal Am's workpapers show the Test Year 2018
3 Service Company forecast begins with a 2016 Service Company budgeted amount and
4 applies Composite inflation factors of 2.78% and 3.24% to reach 2018.⁶⁵ According to
5 Cal Am, the 2016 Cal Am budget amount started with the total Service Company 2016
6 budget amount for each Business Function and then determined Cal Am's share of each

⁶⁴ Table Source: Cal Am's response to Data Request ORA MC8-002, Q.4.a., tab "2018".

⁶⁵ Cal Am workpaper ALL_CH04_O&M_RO_Service Co, tab "IN_CAW Specific Adj". Note: Cal Am inflates Pension and Group Medical Insurance expense to TY 2018 using other specific inflation factors.

1 Business Function by “taking the latest recorded percentage allotment by function, which
2 was 2015.”⁶⁶ As a result, Cal Am’s TY 2018 forecast for Service Company is based
3 heavily on the results of the 2015 cost allocation process at the Service Company.

4 Cal Am explains the Service Company cost allocation process is a combination
5 of direct charges and metrics:

6 “Costs are either directly charged to the Company [Cal Am] based on work
7 performed, or allocated based on a formula. The formula is based on one or more
8 factors such as employees, net plant, revenues, or the number of customers of each
9 operating company at the end of the preceding year.”⁶⁷

10 For example, Cal Am may be allocated a larger percentage of the Central Lab
11 Business Function than a subsidiary in a state that requires less water testing than
12 California, because Service Company directly charges subsidiaries for testing done at the
13 Central Lab. The following year, subsidiaries in other states could increase water testing
14 and then Cal Am’ allocated percentage of the Central Lab would decrease.

15 In A.16-07-002, Cal Am requests a TY 2018 Service Company expense allocation
16 total of \$12,703,945, which is a 2.5% increase over the amount “recorded” by Cal Am in
17 2015 for Service Company expense. It is important to note that Cal Am’s “recorded”
18 Service Company amounts are derived from the internal Service Company allocation
19 process mentioned above and are not amounts adopted by the Commission. Cal Am’s
20 previously adopted TY 2015 Service Company expense amount was \$11,600,000 making
21 Cal Am’s current TY 2018 request a 9.52% increase from the previously Commission
22 authorized amount.⁶⁸

23 ORA’s methodology forecasts a total 2018 Service Company amount for each
24 Business Function, based on applying inflation factors to Cal Am’s 2016 forecasts, with
25 separate adjustments to Service Company labor, employee bonuses, External Affairs, and

⁶⁶ Direct Testimony of Todd Pray, p. 20.

⁶⁷ Direct Testimony of Todd Pray, p. 19.

⁶⁸ A.13-07-002, Settlement Agreement, Sec. 9.0, p. 67. Adopted by D.15-07-004.

the Business Development function. ORA then allocates percentages of each of the TY 2018 Business Functions amounts to Cal Am based on the three-year average recorded allocation percentages. As seen on the table below, ORA recommends the Commission adopt a TY 2018 Service Company expense for Cal Am of \$10,671,436, which is \$2,032,509 less than Cal Am's forecast. ORA's recommendation is an approximate 8% decrease from the TY 2015 amount previously authorized by the Commission.

Table 4-2. ORA's TY 2018 Service Company Forecast by Business Function

	Labor	Labor Related	Other	Total
Business Development	\$0	\$0	\$0	\$0
Central Lab	\$169,469	\$57,041	\$116,826	\$343,336
Corp Admin	\$0	\$17,718	\$1,241,778	\$1,259,495
Customer Service Center (CSC)	\$1,595,607	\$679,216	\$554,047	\$2,828,870
Engineering	\$38,536	\$11,599	\$10,742	\$60,877
External Affairs Communication	\$214,416	\$59,059	\$177,180	\$450,654
Facilities	\$4,867	\$1,275	\$318,771	\$324,913
Finance	\$1,017,053	\$329,183	\$251,342	\$1,597,578
Government_Affairs	\$4,937	\$1,324	\$13,465	\$19,726
Health & Safety	\$32,820	\$9,270	\$8,698	\$50,787
HR Services	\$76,443	\$34,522	\$24,253	\$135,218
Human Resources	\$331,341	\$100,799	\$191,301	\$623,441
Information Technology Services (ITS)	\$829,598	\$251,086	\$1,042,761	\$2,123,444
Innov & Env Stewardship	\$77,798	\$19,342	-\$18,825	\$78,314
Investor Relations	\$10,458	\$3,226	\$26,002	\$39,686
Legal	\$132,149	\$31,282	\$88,654	\$252,085
Physical & Cyber Security	\$45,662	\$21,420	\$67,254	\$134,337
Regulated Ops	\$122,517	\$18,189	\$36,924	\$177,630
Regulatory Policy	\$24,310	\$7,263	\$16,544	\$48,117
Supply Chain	\$72,117	\$25,107	\$25,704	\$122,928
Total	\$4,800,099	\$1,677,919	\$4,193,419	\$10,671,436

1. **Three-Year Average Business Function Percentage Allocation Factors**

Cal Am's TY 2018 forecasted \$12,703,945 Service Company ("SC") expense begins with the total Service Company 2016 budgeted amount for each of the twenty Business Functions, and then a percentage of each of the twenty Business Functions is

allocated to Cal Am (using the same percentages recorded in 2015) to arrive at Cal Am's 2016 estimated amount. Cal Am then adds inflation factors to the 2016 estimated amount to reach the TY 2018 forecast.⁶⁹

As mentioned above, Cal Am's allocated percentage of each SC Business Function estimated for 2016 is made using the same percentages recorded to Cal Am in year 2015. For example, in 2015 Cal Am recorded being allocated 6.47% of the total SC Finance Business Function, so to estimate 2016 Cal Am simply allocates 6.47% of the total Service Company 2016 budget for the Finance function.⁷⁰ The table below demonstrates how Cal Am's 2016 estimate was directly derived from the recorded 2015 allocation percentages.⁷¹

Table 4-3. Cal Am's 2015 and 2016 Allocation % of Total Service Company

	Cal Am 2015 Recorded			Cal AM 2016 Estimate		
	2015 Total Service Company	2015 Cal Am	% total SC	2016 Total Service Company	2016 Cal Am	% total SC
Business Development	\$5,589,073	\$168,589	3.02%	\$6,538,012	\$197,213	3.02%
Central Lab	\$2,629,122	\$514,008	19.55%	\$2,204,272	\$430,948	19.55%
Corp Admin	\$4,902,675	\$252,445	5.15%	\$23,715,735	\$1,221,153	5.15%
Customer Service Center (CSC)	\$43,434,885	\$2,997,451	6.90%	\$41,286,848	\$2,849,214	6.90%
Engineering	\$2,093,184	\$66,487	3.18%	\$1,810,292	\$57,502	3.18%
External Affairs Communication	\$6,202,295	\$490,350	7.91%	\$6,510,207	\$514,693	7.91%
Facilities	\$5,504,264	\$353,923	6.43%	\$4,998,216	\$321,384	6.43%
Finance	\$31,292,101	\$2,025,872	6.47%	\$31,029,139	\$2,008,848	6.47%
Government_Affairs	\$585,444	\$28,865	4.93%	\$515,952	\$25,438	4.93%
Health & Safety	\$1,314,025	\$70,541	5.37%	\$1,191,139	\$63,944	5.37%
HR Services	\$2,872,162	\$139,132	4.84%	\$3,284,893	\$159,126	4.84%
Human Resources	\$15,156,959	\$670,755	4.43%	\$16,427,373	\$726,976	4.43%
Information Technology Services (ITS)	\$64,027,652	\$3,427,456	5.35%	\$41,842,227	\$2,239,851	5.35%
Innov & Env Stewardship	\$2,269,649	\$94,329	4.16%	\$1,646,756	\$68,441	4.16%
Investor Relations	\$1,366,510	\$25,539	1.87%	\$1,640,854	\$30,666	1.87%
Legal	\$9,852,631	\$359,348	3.65%	\$8,972,004	\$327,230	3.65%
Physical & Cyber Security	\$1,744,175	\$86,252	4.95%	\$2,907,603	\$143,786	4.95%
Regulated Ops	\$9,405,025	\$445,016	4.73%	\$9,895,929	\$468,244	4.73%
Regulatory Policy	\$947,228	\$52,105	5.50%	\$1,004,316	\$55,245	5.50%
Supply Chain	\$2,385,656	\$127,605	5.35%	\$2,435,435	\$130,268	5.35%
Total	\$213,574,717	\$12,396,069		\$209,857,201	\$12,040,169	

⁶⁹ Cal Am workpaper ALL_CH04_O&M_RO_Service Co, tab "IN_CAW Specific Adj"

⁷⁰ Cal Am's response to Data Request ORA MC8-002, Q.4.a. Attachment 1, tabs 2015 and 2016.

⁷¹ Ibid.

Cal Am bases its TY 2018 forecast on inflating the 2016 estimated amounts seen above, meaning Cal Am's TY 2018 Service Company forecast is based on the one-year sample of 2015 recorded allocation percentages. However, Cal Am's historic allocation percentages show that the recorded allocation percentages vary from year-to-year. Therefore, adopting the three-year recorded average of allocation percentages for each Business Function is a more accurate way to build the TY 2018 Service Company forecast.

The table below shows Service Company's twenty Business Functions along with the percentage allocation factors recorded by Cal Am in 2013-2015 (and forecasted in 2016) as compared to the three-year 2013-2015 recorded average.⁷²

Table 4-4. Recorded 2013-2015 Cal Am Allocated % of Total Service Company

	2013 Recorded % of Total SC	2014 Recorded % of Total SC	2015 Recorded % of Total SC	2016 Forecast % of Total SC	2013-2015 Average % of Total SC
Business Development	2.56%	1.90%	3.02%	3.02%	2.49%
Central Lab	13.56%	15.62%	19.55%	19.55%	16.24%
Corp Admin	4.83%	5.03%	5.15%	5.15%	5.00%
Customer Service Center (CSC)	5.39%	7.17%	6.90%	6.90%	6.49%
Engineering	4.34%	3.25%	3.18%	3.18%	3.59%
External Affairs Communication	7.66%	7.54%	7.91%	7.91%	7.70%
Facilities	6.20%	5.81%	6.43%	6.43%	6.15%
Finance	5.98%	5.46%	6.47%	6.47%	5.97%
Government Affairs	4.77%	4.91%	4.93%	4.93%	4.87%
Health & Safety	3.94%	5.03%	5.37%	5.37%	4.78%
HR Services	5.32%	4.86%	4.84%	4.84%	5.01%
Human Resources	4.32%	4.21%	4.43%	4.43%	4.32%
Information Technology Services (ITS)	5.26%	5.35%	5.35%	5.35%	5.32%
Innov & Env Stewardship	4.45%	4.64%	4.16%	4.16%	4.42%
Investor Relations	5.17%	1.73%	1.87%	1.87%	2.92%
Legal	3.11%	3.33%	3.65%	3.65%	3.36%
Physical & Cyber Security	5.46%	5.42%	4.95%	4.95%	5.28%
Regulated Ops	1.66%	1.75%	4.73%	4.73%	2.71%
Regulatory Policy	5.70%	5.38%	5.50%	5.50%	5.53%
Supply Chain	5.13%	5.40%	5.35%	5.35%	5.29%

⁷² Cal Am's response to Data Request ORA MC8-002, Q.4.a. Attachment 1, tabs 2013-2016.

1 As the table above shows, allocation percentages to Cal Am tend to fluctuate year-
2 over-year. For example, in 2013 and 2014, Cal Am recorded just 1.66% and 1.75% of
3 the total Service Company Regulated Ops Business Function, respectively. In 2015, this
4 percentage dramatically increased to 4.73%. Cal Am's forecasting methodology
5 ultimately bases its TY 2018 Regulated Ops amount on the 4.73% of total Regulated Ops
6 allocated to Cal Am in 2015. The result is that Cal Am's forecast for TY 2018 Regulated
7 Ops is 4.73% of the total Regulated Ops, even though the 2013 and 2014 recorded
8 allocation percentages for Regulated Ops were 1.66% and 1.75%, respectively.

9 A review of Table 4-4 above confirms that Regulated Ops is not an isolated case;
10 instead the table demonstrates the majority of Business Function allocation percentages
11 exhibit no clear trend. Indeed, most Business Functions exhibit variable increases in one
12 year and decreases in the next, or vice versa. While this detail is not surprising, it does
13 underscore the need for the Commission to smooth out fluctuations by adopting the three-
14 year recorded average allocation percentages.

15 Adopting three-year average Service Company percentage allocation factors also
16 has the effect of accounting for the dynamic nature of American Water's recent
17 subsidiary acquisitions. As further discussed in the Business Development section
18 below, American Water has recently announced a number of acquisitions by
19 Pennsylvania American Water and New Jersey American Water. As American Water's
20 CEO Susan Story told investors in the second quarter earnings call:

21 "We had excellent growth during the first half of 2016. We have added
22 approximately 7,600 new customers from closed acquisitions and 5,300 customers
23 from organic growth. We have agreements in place, pending regulatory approval,
24 which would add 47,800 more customers that include both the previously
25 announced Scranton Sewer Authority, which added 31,000 wastewater customers
26 as well as our recently announced acquisition of Shorelands Water Company
27 adding more than 11,000 water customers in New Jersey."⁷³

⁷³ Web. 27 December 2016 <http://seekingalpha.com/article/3995888-american-water-works-awk-ceo-susan-story-q2-2016-results-earnings-call-transcript?page=2>.

In addition to the regulated subsidiary acquisitions mentioned above, between 2013 and 2015 American Water Works' non-regulated subsidiary American Water Enterprises ("AWE") entered into three long-term military base contracts to own, operate, and maintain the water and the wastewater systems at Vandenberg Air Force Base, CA, Picatinny Arsenal, NJ, and Hill Air Force Base in Utah.⁷⁴ AWE's Military Services Group performs AWE's military contracts. The table below shows how these three new contracts resulted in a 23.96% increase in the number of customers served by the Military Services Group:⁷⁵

Table 4-5. 2013-2015 Customer Growth in AWE's Military Services Group

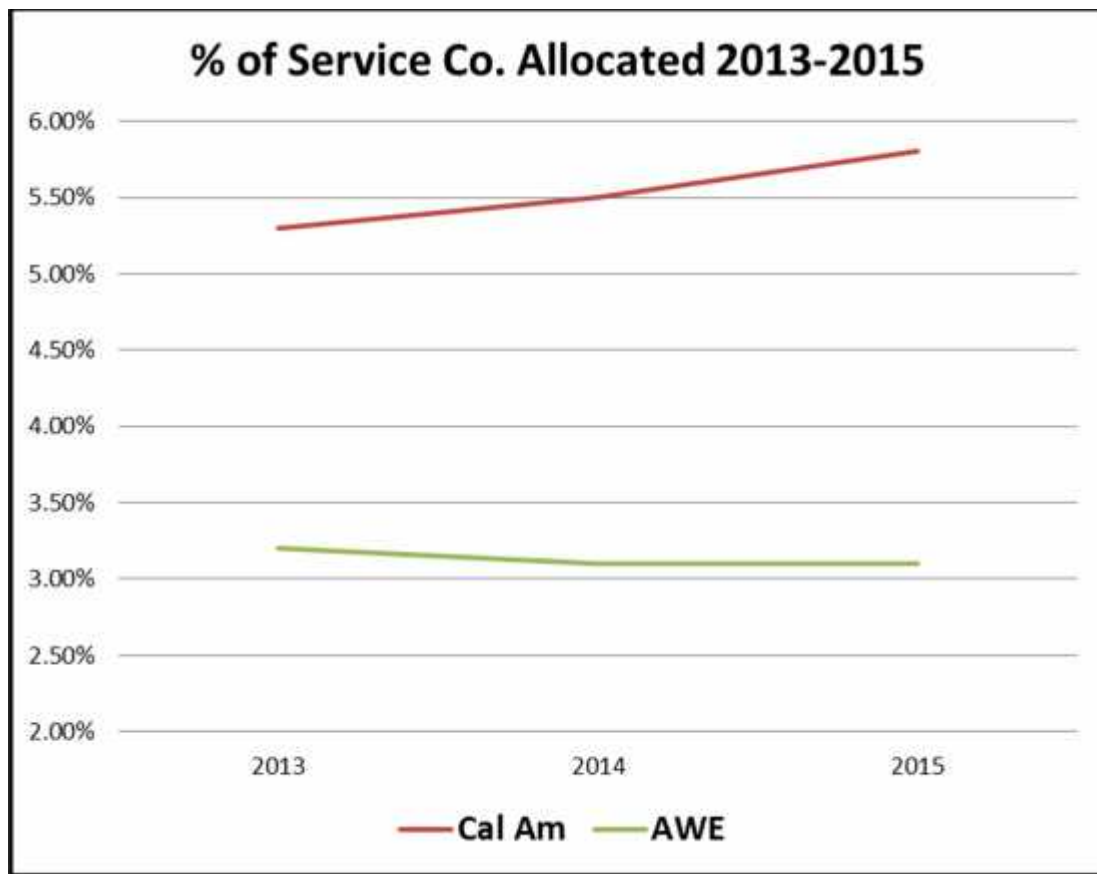
Contract Served	Location	Customers
Vandenberg Air Force Base*	CA	18,000
Picatinny Arsenal*	NJ	6,011
Hill Air Force Base*	UT	26,665
Additional Customers:	(a)	50,676
Fort AP Hill	VA	198
Fort Belvoir	VA	29,577
Fort Hood	TX	54,250
Fort Leavenworth	KS	12,934
Fort Meade	MD	49,000
Fort Polk	LA	20,000
Fort Rucker	AL	15,700
Fort Sill	OK	23,000
Scott AFB	IL	6,800
Previous Customer Total:	(b)	211,459
% increase in customers 2013-2015	(a)/(b)	23.96%
*New Contract since 2013		

⁷⁴ Web. Retrieved 1/13/07. <<http://pr.amwater.com/PressReleases/releasedetail.cfm?ReleaseID=933259>, <<http://pr.amwater.com/PressReleases/releasedetail.cfm?ReleaseID=868372>>, <<http://pr.amwater.com/PressReleases/releasedetail.cfm?ReleaseID=818439>>

⁷⁵ Number of Customer data obtained on American Water Works 2015 Military Base Water Quality Reports, see Attachment 2. Except Vandenberg AFB: Web. Retrieved January 17, 2017. <<http://www.spl.usace.army.mil/Media/News-Stories/Article/477124/building-big-for-water-at-vandenberg/>>

1 As seen in table 4-5, between 2013 and 2015, customers served by AWE increased by
2 50,676, or 23.96%. However, Service Company budget variance reports from 2013-2015
3 show the percent of total Service Company Operating Expenses (“OPEX”) allocated to
4 AWE actually *decreased* during this time period.⁷⁶ Furthermore, over the same time
5 period, Cal Am’s allocated percent of total Service Company OPEX *increased* from 5.3%
6 to 5.8%, despite having only a minimal increase in customers.⁷⁷ The table below
7 illustrates the percent of total Service Company OPEX allocated to AWE and Cal Am
8 between 2013 and 2015 when AWE’s number of customers increased by 23.96%.

Table 4-6. AWE and Cal Am % of Service Company OPEX Allocated



⁷⁶ Cal Am’s response to Data Request ORA MC8-002, Q-2.a. See Attachment 3.

⁷⁷ Cal Am workpapers CH03_REV_RO, tab “Recorded Data” (for each district) show a combined 0.49% customer count increase from 2013-2015.

1 Although Cal Am declined to forecast any Service Company economies of scale
2 benefits from the recent acquisitions,⁷⁸ adopting allocation percentages based on a three-
3 year average instead of using a single year to forecast TY 2018 will help smooth out the
4 changing nature of regulated and AWE military subsidiaries' use of the Service
5 Company. Consequently, the Commission should adopt the 2013-2015 three-year
6 average allocation percentages shown in the table 4-4 above in order to forecast Cal Am's
7 TY 2018 Service Company Business Functions.

8 2. Service Company Labor

9 In A.16-07-002 Cal Am's workpaper forecasts \$6,494,975 for an allocation of
10 Service Company Labor expense in TY 2018.⁷⁹ However, this amount also includes
11 forecasts for employee bonuses referred to as the Service Company Annual Incentive
12 Plan ("AIP") and Employee Stock Options. Through discovery, ORA was able to isolate
13 forecasted actual payroll labor from the employee bonuses to find that Cal Am's TY 2018
14 payroll labor forecast is \$5,333,586, while AIP and Employee Stock Options account for
15 \$1,161,390 of Cal Am's total \$6,494,975 Service Company labor forecast.⁸⁰ The
16 remainder of this section will focus on Cal Am's actual payroll labor forecast of
17 \$5,333,586 for Service Company, while AIP and Employee Stock Options will be
18 discussed in next section.

19 The Commission should adopt a Service Company payroll labor amount of
20 \$4,441,216 for TY 2018, which is \$892,370 less than Cal Am's \$5,333,586 forecast. The
21 difference between the two forecasts is mainly the result of ORA's use of the three-year
22 average Service Company Business Function allocation percentages previously
23 discussed, and ORA's use of recorded 2015 labor as a base year to begin its labor
24 forecast. In addition, ORA recommends using the latest Commission labor inflation

⁷⁸ Cal Am's response to Data Request ORA MC8-008, Q.1.

⁷⁹ Cal Am workpaper ALL_CH04_O&M_RO_Service Co, tab WS9, cell Q25. Also see Table 4-1 above.

⁸⁰ Cal Am's response to Data Request MC8-013, q.1. Attachment, tab "2016-CA ONLY", cells E131-J131 contain 2016 amounts when escalated by 2.78% and 3.24% equal \$5,333,586 labor and \$1,161,390 AIP.

1 factors as published monthly by the Commission’s ORA Water and Energy Cost of
2 Service (“ECOS”) branches.

3 Cal Am begins the Service Company labor forecast with a 2016 total Service
4 Company budget amount for each Business Function and then allocates the same
5 percentage of each Business Function to Cal Am that was recorded as allocated in 2015.
6 Cal Am then compounds the resulting 2016 Cal Am labor budget estimate of \$5,026,465
7 by 2.78% and 3.24% for 2017 and 2018 labor inflation, respectively, to arrive at the TY
8 2018 amount \$5,333,586.⁸¹ The result of Cal Am’s forecast is an 8.2% increase for
9 Service Company labor in TY 2018 above its stated recorded 2015 labor.⁸²

10 Cal Am’s methodology is inappropriate because it is allocated based on a single
11 year’s sample of allocation factors, uses an estimated 2016 amount as a base year amount
12 instead of recorded payroll data, and ignores Commission-published labor escalation
13 factors. The table below demonstrates Cal Am’s methodology.

⁸¹ Ibid.

⁸² Cal Am’s response to Data Request ORA MC8-013, q.1. Attachment, tab “2015-CA ONLY”, cells E131-H131 sum to \$4,929,309 payroll labor 8.2% increase is \$5,333,586. Note: Uses Cal Am’s 2015 allocation factors only.

Table 4-7. Cal Am's TY 2018 Service Company Labor Methodology

	2016 (Estimate)	2017 (Forecast)	2018 (Forecast)	Cal Am TY 2018	
	Total Serv. Co. Payroll Labor	Non-labor inflation rate 2.78%	Non-labor inflation rate 3.24%	2015 allocation factors	Serv. Co. labor allocation
Business Development	\$3,006,014	\$3,089,581	\$3,189,684	3.02%	\$96,214
Central Lab	\$1,057,038	\$1,086,423	\$1,121,624	19.55%	\$219,284
Corp Admin	\$0	\$0	\$0	5.15%	\$0
Customer Service Center (CSC)	\$21,853,376	\$22,460,900	\$23,188,633	6.90%	\$1,600,253
Engineering	\$1,021,552	\$1,049,951	\$1,083,969	3.18%	\$34,431
External Affairs Communication	\$2,391,061	\$2,457,533	\$2,537,157	7.91%	\$200,586
Facilities	\$83,305	\$85,620	\$88,395	6.43%	\$5,684
Finance	\$17,824,955	\$18,320,488	\$18,914,072	6.47%	\$1,224,510
Government Affairs	\$145,084	\$149,117	\$153,948	4.93%	\$7,590
Health & Safety	\$637,169	\$654,882	\$676,100	5.37%	\$36,295
HR Services	\$1,993,177	\$2,048,588	\$2,114,962	4.84%	\$102,452
Human Resources	\$8,404,654	\$8,638,303	\$8,918,184	4.43%	\$394,665
Information Technology Services (ITS)	\$16,216,167	\$16,666,977	\$17,206,987	5.35%	\$921,105
Innov & Env Stewardship	\$1,371,476	\$1,409,604	\$1,455,275	4.16%	\$60,483
Investor Relations	\$478,110	\$491,402	\$507,323	1.87%	\$9,482
Legal	\$3,250,809	\$3,341,182	\$3,449,436	3.65%	\$125,809
Physical & Cyber Security	\$1,170,345	\$1,202,881	\$1,241,854	4.95%	\$61,412
Regulated Ops	\$2,686,664	\$2,761,354	\$2,850,821	4.73%	\$134,892
Regulatory Policy	\$418,797	\$430,440	\$444,386	5.50%	\$24,445
Supply Chain	\$1,303,739	\$1,339,983	\$1,383,398	5.35%	\$73,996
Total	\$85,313,494	\$87,685,209	\$90,526,209		\$5,333,585

1 Cal Am's use of an estimated 2016 baseline arbitrarily disregards the
2 Commission-published memorandum forecasting 0.1% labor inflation in 2016.⁸³
3 Furthermore, Cal Am's 2017 and 2018 labor escalation factors are based on the
4 Commission-published Composite non-labor inflation factors, which is a weighted
5 calculation that contains no labor component. The Commission's instructions provide
6 that the Composite non-labor rate is a weighted mixture of the Compensation per hour

⁸³ Commission Memorandum, "Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2016 through 2020 from the May 2016 IHS Global Insight U.S. Economic Outlook." Published June 20, 2016.

1 rate that is “applicable to contracted services”⁸⁴ and the monthly non-labor rate that “is
2 related to materials and supply purchases.”⁸⁵ Indeed, the Commission’s specified
3 calculation is that “the monthly non-labor rate is to be weighted by 60 percent and the
4 Compensation per Hour Index weighted at 40 percent.”⁸⁶ Consequently, there is no
5 portion of Cal Am’s labor escalation methodology that includes a labor inflation
6 component. As a result, the Commission should reject Cal Am’s labor inflation factors.

7 ORA’s method begins with total Service Company labor recorded in 2015 for
8 each Business Function and escalates to TY 2018 total Service Company using the
9 Commission-published ECOS labor inflation factors published in May 2016. These
10 factors are 0.1%, 1.0% and 2.4% for 2016, 2017 and 2018, respectively. As discussed in
11 Section 1, ORA then allocates each Business Function to Cal Am based on the three-year
12 average percentage allocation factors. As shown in the table below, ORA’s methodology
13 results in a total Service Company payroll labor forecast of \$80,781,225 for 2018, with a
14 combined portion allocated to Cal Am for \$4,441,214 in TY 2018, or 5.5% of total
15 forecasted Service Company payroll labor.

⁸⁴ Commission Memorandum, “ORA May 2016 Summary of Compensation per Hour” Published June 20, 2016.

⁸⁵ Ibid.

⁸⁶ Ibid.

Table 4-8. ORA TY 2018 Service Company Payroll Labor Forecast

	2015 (Recorded)	2016 (Forecast)	2017 (Forecast)	2018 (Forecast)	TY 2018	
	Total Serv. Co. Payroll Labor	.1% labor inflation	1% labor inflation	2.4% labor inflation	3-year avg. allocation factors	Serv. Co. labor allocation
Business Development	\$2,230,226	\$2,232,457	\$2,254,781	\$2,308,896	2.49%	\$0
Central Lab	\$950,349	\$951,300	\$960,813	\$983,872	16.24%	\$159,790
Corp Admin	\$150,419	\$150,569	\$152,075	\$155,724	5.00%	\$7,794
Customer Service Center (CSC)	\$23,110,824	\$23,133,935	\$23,365,274	\$23,926,041	6.49%	\$1,552,495
Engineering	\$1,028,786	\$1,029,815	\$1,040,113	\$1,065,076	3.59%	\$38,197
External Affairs Communication	\$2,376,750	\$2,379,126	\$2,402,918	\$2,460,588	7.70%	\$189,528
Facilities	\$72,252	\$72,324	\$73,048	\$74,801	6.15%	\$4,597
Finance	\$14,769,725	\$14,784,495	\$14,932,340	\$15,290,716	5.97%	\$913,004
Government_Affairs	\$83,217	\$83,301	\$84,134	\$86,153	4.87%	\$4,196
Health & Safety	\$597,519	\$598,117	\$604,098	\$618,596	4.78%	\$29,558
HR Services	\$1,462,395	\$1,463,858	\$1,478,496	\$1,513,980	5.01%	\$75,816
Human Resources	\$6,336,716	\$6,343,053	\$6,406,483	\$6,560,239	4.32%	\$283,145
Information Technology Services (ITS)	\$13,725,410	\$13,739,136	\$13,876,527	\$14,209,564	5.32%	\$755,715
Innov & Env Stewardship	\$1,621,743	\$1,623,365	\$1,639,599	\$1,678,949	4.42%	\$74,131
Investor Relations	\$312,039	\$312,351	\$315,474	\$323,045	2.92%	\$9,444
Legal	\$3,219,379	\$3,222,599	\$3,254,825	\$3,332,941	3.36%	\$112,113
Physical & Cyber Security	\$783,228	\$784,011	\$791,851	\$810,855	5.28%	\$42,787
Regulated Ops	\$3,624,502	\$3,628,126	\$3,664,407	\$3,752,353	2.71%	\$101,821
Regulatory Policy	\$371,556	\$371,927	\$375,647	\$384,662	5.53%	\$21,256
Supply Chain	\$1,201,781	\$1,202,983	\$1,215,013	\$1,244,173	5.29%	\$65,828
Total	\$78,028,818	\$78,106,847	\$78,887,915	\$80,781,225		\$4,441,214

In addition to using three-year average allocation factors, ORA's 2015 base year methodology is superior to Cal Am's estimated 2016 payroll as base year because it uses actual recorded 2015 payroll expense data as its starting point. The Commission has previously examined this issue and agreed, stating "We believe that ORA's method of using the actual 2014 payroll expense data is a preferable starting point than estimating 2015 payroll and starting there."⁸⁷

ORA's labor inflation methodology is also superior to Cal Am's because it is based on the same Commission-published factors that are used to inflate labor during attrition filings, as directed by the Rate Case Plan.⁸⁸ Cal Am's method uses a budget estimate for 2016 labor and then uses Composite non-labor inflation factors (with no

⁸⁷ San Jose Water Company GRC A.15-01-002, D.16-06-004, p. 20.

⁸⁸ D.07-05-062, p. A-19.

labor component) to arrive at TY 2018. As a result, the Commission should reject Cal Am's method and adopt \$4,441,214 for TY 2018 Service Company Labor.

3. Service Company Annual Performance Plan and Employee Stock Options

For TY 2018, Cal Am includes \$1,161,390 for Employee Incentive plans across three categories: the Annual Performance Plan ("APP"), Compensation Expense – Options ("Stock Options"), and Compensation Expense- Restricted Stock Units ("RSU").⁸⁹ Cal Am's TY 2018 forecast of \$1,161,390 for Employee Incentive plans is a 359% increase above the \$323,300 amount previously adopted for 2015 by the Commission in D.15-04-007.⁹⁰ The following table presents Cal Am's methodology.

⁸⁹ Cal Am's response to Data Request MC8-013, q.1. Attachment, tab "2016-CA ONLY", cells H131-J131 contain 2016 amount \$1,094,514. Cal Am escalates by 2.78% and 3.24% to equal \$1,161,390 in 2018.

⁹⁰ ORA recommended \$123,300 Incentive Plan for Service Company, A.13-07-002 ORA Report on General Office and Income Taxes, page 24. The adopted settlement agreement states Service Company costs for 2015 "reflects the inclusion of approximately \$200,000 of additional Incentive Plan costs over the amount proposed by ORA."

Table 4-9. Cal Am's TY 2018 Service Company Employee Incentives

	2016 Budgeted Total Serv. Co. APP	2016 Budgeted Total Serv. Co. Options (PSUs)	2016 Budgeted (RSUs)	2016 Total Budgeted Employee Incentives	Non-Labor inflation 6.11% compounded to 2018	Recorded 2015 Allocation Factors	Totals
Business Development	\$750,740	\$235,979	\$555,127	\$1,541,847	\$1,636,053	3.02%	\$49,351
Central Lab	\$112,213	\$7,048	\$10,572	\$129,833	\$137,766	19.55%	\$26,934
Corp Admin	\$0	\$0	\$0	\$0	\$0	5.15%	\$0
Customer Service Center (CSC)	\$821,403	\$32,584	\$48,876	\$902,864	\$958,029	6.90%	\$66,114
Engineering	\$171,048	\$8,314	\$12,471	\$191,834	\$203,555	3.18%	\$6,466
External Affairs Communication	\$561,732	\$213,191	\$319,334	\$1,094,258	\$1,161,117	7.91%	\$91,797
Facilities	\$8,330	\$0	\$0	\$8,330	\$8,839	6.43%	\$568
Finance	\$2,681,773	\$482,673	\$806,773	\$3,971,220	\$4,213,861	6.47%	\$272,808
Government Affairs	\$43,109	\$17,163	\$25,745	\$86,018	\$91,273	4.93%	\$4,500
Health & Safety	\$120,131	\$21,878	\$32,816	\$174,825	\$185,507	5.37%	\$9,959
HR Services	\$169,209	\$4,714	\$8,755	\$182,678	\$193,839	4.84%	\$9,390
Human Resources	\$1,511,034	-\$85,341	\$229,069	\$1,654,762	\$1,755,868	4.43%	\$77,704
Information Technology Services	\$2,422,705	\$92,457	\$138,686	\$2,653,848	\$2,815,998	5.35%	\$150,743
Innov & Env Stewardship	\$194,660	\$18,867	\$28,301	\$241,827	\$256,603	4.16%	\$10,665
Investor Relations	\$124,914	\$33,575	\$62,354	\$220,843	\$234,337	1.87%	\$4,380
Legal	\$1,087,212	\$527,652	\$707,218	\$2,322,082	\$2,463,962	3.65%	\$89,866
Physical & Cyber Security	\$150,552	\$5,013	\$7,520	\$163,085	\$173,050	4.95%	\$8,558
Regulated Ops	\$1,820,161	\$1,231,126	\$2,114,732	\$5,166,018	\$5,481,662	4.73%	\$259,375
Regulatory Policy	\$92,935	\$30,452	\$45,679	\$169,066	\$179,396	5.50%	\$9,868
Supply Chain	\$177,260	\$16,095	\$24,142	\$217,497	\$230,787	5.35%	\$12,344
Total	\$13,021,124	\$2,893,442	\$5,178,171	\$21,092,737	\$22,381,503		\$1,161,390

The Commission should adopt \$302,068 for combined Employee Incentives APP, Stock Options and RSUs for the Service Company in TY 2018, which is an amount \$859,322 less than Cal Am's current forecast. The reasons for the difference are ORA's use of recorded 2015 data as a base year instead of Cal Am's 2016 estimate, use of different labor inflation factors and the use of different percentage allocation factors. In addition, ORA recommends that shareholders fund 50% of APP, 50% of PSUs and the entire cost of RSUs.⁹¹ The following table demonstrates ORA's methodology:

⁹¹ See ORA Payroll Expense Testimony of witness Julia Ende for further discussion of this recommendation.

Table 4-10. ORA's TY 2018 Forecast for Service Company APP and PSUs

	2015 Recorded Total Serv. Co. APP	2015 Recorded Total Serv. Co. Options (PSUs)	2015 Recorded Total Serv. Co. Incentive (APP + PSUs)	3.53% Labor Inflation Compound to 2018	ORA 50% reduction for shareholder funded portion	3- Year Average allocation factors	Totals
Business Development	\$550,066	\$66,967	\$617,033	\$638,814	\$319,407	N/A	N/A
Central Lab	\$111,493	\$3,585	\$115,077	\$119,140	\$59,570	16.24%	\$9,675
Corp Admin	\$0	\$0	\$0	\$0	\$0	5.00%	\$0
Customer Service Center (CSC)	\$595,071	\$21,432	\$616,503	\$638,266	\$319,133	6.49%	\$20,708
Engineering	\$11,286	\$6,893	\$18,179	\$18,820	\$9,410	3.59%	\$337
External Affairs Communication	\$556,051	\$68,032	\$624,083	\$646,113	\$323,057	7.70%	\$24,884
Facilities	\$8,488	\$0	\$8,488	\$8,788	\$4,394	6.15%	\$270
Finance	\$2,394,200	\$328,254	\$2,722,454	\$2,818,556	\$1,409,278	5.97%	\$84,148
Government Affairs	\$29,403	\$0	\$29,403	\$30,441	\$15,220	4.87%	\$741
Health & Safety	\$120,061	\$11,796	\$131,857	\$136,512	\$68,256	4.78%	\$3,261
HR Services	\$23,262	\$876	\$24,139	\$24,991	\$12,496	5.01%	\$626
Human Resources	\$1,269,396	\$53,892	\$1,323,288	\$1,370,000	\$685,000	4.32%	\$29,565
Information Technology Services	\$2,687,896	\$43,029	\$2,730,925	\$2,827,327	\$1,413,663	5.32%	\$75,184
Innov & Env Stewardship	\$148,490	\$11,857	\$160,347	\$166,007	\$83,003	4.42%	\$3,665
Investor Relations	\$64,537	\$2,506	\$67,043	\$69,410	\$34,705	2.92%	\$1,015
Legal	\$757,101	\$67,454	\$824,555	\$853,662	\$426,831	3.36%	\$14,358
Physical & Cyber Security	\$104,137	\$1,088	\$105,225	\$108,940	\$54,470	5.28%	\$2,874
Regulated Ops	\$1,263,803	\$260,942	\$1,524,745	\$1,578,568	\$789,284	2.71%	\$21,417
Regulatory Policy	\$91,161	\$15,598	\$106,759	\$110,528	\$55,264	5.53%	\$3,054
Supply Chain	\$215,539	\$14,010	\$229,549	\$237,652	\$118,826	5.29%	\$6,287
Total	\$11,001,442	\$978,211	\$11,979,652	\$12,402,534	\$6,201,267		\$302,068

4. Business Development Function

Cal Am is requesting \$208,185 to be recovered in TY 2018 from California ratepayers for its share of the Business Development Business Function.⁹² Cal Am's allocation represents approximately 3.02% of the total Business Development expense budgeted by Service Company. The Commission should remove all costs associated with the Business Development function from Cal Am's TY 2018 rates.

Cal Am states that it should recover costs for Business Development from California ratepayers because customers benefit from the increased economies of scale produced by the Business Development unit, as well as an improved cost of capital.⁹³ Concerning Cal Am's improved cost of capital assertion, ORA is already recommending a sufficient amount of ratepayer funding for the Service Company's Investor Relations

⁹² Cal Am's response to Data Request ORA MC8-002, Q.4.A, Attachment 1.

⁹³ Direct Testimony of Todd Pray, pp. 22-23.

1 and Finance functions to handle capital needs. Furthermore, in Cal Am's peer group of
2 the four largest Class A Water utilities that file a Joint Cost of Capital application with
3 the Commission, Cal Am currently has the highest authorized Rate of Return at 8.41%.

4 Cal Am also asserts in testimony that the Business Development function
5 potentially improves economies of scale, explaining:

6 "Simply, the larger a customer base, the greater the ability the Company has to
7 spread certain costs over that customer base. When an acquisition is made by any
8 American Water subsidiary which increases potential for economy of scale of
9 [Service Company] provided services, the benefits are spread to all subsidiaries
10 receiving services in the form of costs that are lower. These savings are passed on
11 to customers of all subsidiaries receiving this service."⁹⁴

12 As the table below shows, a number of subsidiary acquisitions and military base contracts
13 expanding the customer base have recently been completed or are expected to be
14 completed during 2017.

⁹⁴ Direct Testimony of Todd Pray, pp. 22-23.

Table 4-11. American Water Works' Recent Subsidiary Acquisitions

System	State	# additional customers	acquisition close date	Regulated/ Military
McKeesport Waste Water	PA	22,000	2017 ¹	Regulated
Sewer Authority of the City of Scranton, Pennsylvania	PA	31,000	2016	Regulated
Total Pennsylvania American Water additions		53,000		
Shorelands Water Company	NJ	11,000	2016 ¹	Regulated
Environmental Disposal Corporation (EDC)	NJ	5,300	2016	Regulated
Roxiticus Water Company	NJ	100	2016	Regulated
Total New Jersey American Water additions		16,400		
Adams Ranch Mutual Water Company	CA	176	2016	Regulated
Geyserville	CA	318	2016	Regulated
Meadowbrook	CA	1,650	2016	Regulated
Total Cal Am additions		2,144		
¹ Announced				
<i>Recent Contracts added</i>				
Vandenberg Air Force Base	CA	18,000	2016	Military
Picatinny Arsenal	NJ	6,011	2014	Military
Hill Air Force Base	UT	26,665	2014	Military

1 According to Cal Am's testimony, when a subsidiary makes an acquisition,
2 economies of scale savings are passed on to customers of all other subsidiaries in the
3 form of lower costs. During discovery, ORA requested that Cal Am:

4 "Demonstrate these savings to California by updating the % of total Service
5 Company for each Business Function taking into account the following recent
6 American Water subsidiary acquisitions: McKeesport Wastewater, Sewer
7 Authority of the City of Scranton, Shorelands Water Company, Environmental
8 Disposal Corporation, Roxiticus Water Company, Keystone Clearwater,
9 Vandenberg AFB, Picatinny Arsenal and Hill AFB."⁹⁵

⁹⁵ Data Request ORA MC8-008, Q-1.

1 Although ORA presented Cal Am with an opportunity to demonstrate these economies of
2 scale savings from American Water’s recently announced subsidiary acquisitions, Cal
3 Am refused, stating in part:

4 “Cal Am objects to this question because it seeks to require the company to
5 generate new work or calculations. Cal Am further objects to the extent that this
6 request seeks information that is not relevant or is beyond the scope of this
7 proceeding.”⁹⁶

8 Contrary to Cal Am’s assertion, the TY 2018 forecast of the economies of scale
9 benefits from subsidiary acquisitions is squarely within the scope of this proceeding and
10 is directly relevant to TY 2018 Service Company expense forecast to Cal Am. Although
11 Cal Am asserts ratepayers should fund \$208,185 in Business Development due to the
12 benefits of increased economies of scale, when there is an opportunity to pass the
13 forecasted savings to ratepayers, Cal Am refuses. As a result, the Commission should
14 deny any recovery by Cal Am for the Business Development function in TY 2018.

15 5. External Affairs- Remove Charitable Contributions

16 Cal Am’s forecast for External Affairs is based on the 2016 budgeted amount,
17 escalated for inflation to TY 2018. Cal Am provided evidence showing that its 2016
18 budget for External Affairs contains \$5,484 in Charitable Donations.⁹⁷ Applying Cal
19 Am’s inflation factors results in \$5,819 of Charitable Donations in TY 2018. The
20 Commission should remove the \$5,819 for Charitable Donations from the TY 2018
21 External Affairs forecast. This recommendation is due to the long-standing Commission
22 policy of excluding philanthropic efforts, or charitable contributions from rates, as
23 reiterated in D.04-07-022:

24 “The American Heritage Dictionary defines ‘philanthropy’ as ‘the effort to increase
25 the well-being of mankind, as by charitable donations.’ The Commission’s policy
26 of excluding charitable donations from authorized rate recovery was upheld by the

⁹⁶ Cal Am’s response to Data Request ORA MC8-008, Q-1.

⁹⁷ Cal Am’s response to Data Request ORA MC8-013, Q-1, Attach. 1, tab 2016-CA ONLY, cell AV47.

1 California Supreme Court in Pacific Tel. & Tel. Co. v. Public Util. Comm. (1965)
2 62 Cal.2d 634, 669.”⁹⁸

3 Therefore, in TY 2018 the Commission should deny Cal Am recovery of \$5,819 in
4 Charitable Donations in the External Affairs Service Company Business Function.

5 **D. CONCLUSION**

6 For Cal Am’s TY 2018, the Commission should adopt a Service Company
7 methodology that is based on the three-year average allocation percentages for Business
8 functions. In addition, the Commission should adopt a Service Company labor forecast
9 based on recorded 2015 data adjusted for inflation, consistent with D.16-06-004. For
10 Service Company Employee Incentives, the Commission should adopt 50% shareholder
11 funding of APP and PSUs and not allow any recovery for RSUs. Finally the Commission
12 should remove any ratepayer funding for Business Development due to the lack of any
13 ratepayer benefits, and for Charitable Contributions due to long-standing Commission
14 precedent.

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⁹⁸ D.04-07-022, p. 210, re: Southern California Edison’s A.02-05-004, TY 2003 GRC.

1 **V. SPECIAL REQUEST #3**

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3 **A. INTRODUCTION**

4 In Special Request 3, Cal Am is requesting uniform treatment across all districts
5 for local municipalities' Franchise Fees. According to Cal Am, currently the
6 Sacramento, Toro, and Garrapata districts all forecast Franchise Fees in rates instead of
7 as a separate charge on customer bills, as is the practice for all of Cal Am's other
8 districts.⁹⁹ Cal Am is also requesting that this approach for Franchise Fees be taken for
9 future acquisitions, including the acquisitions included in the current application.¹⁰⁰
10 ORA reviewed and analyzed Cal Am's testimony, discovery responses and workpapers
11 before making its recommendation.

12 **B. SUMMARY OF RECOMMENDATIONS**

- 13 1. The Commission should adopt Cal Am's request to
14 treat Franchise Fees uniformly across all districts by
15 using a separate surcharge instead of including
16 Franchise Fees in rates.

17 **C. DISCUSSION**

18 During discovery, ORA examined sample copies of several customer bills in order
19 to verify the proper Franchise Fee surcharge amounts for the districts with separate
20 surcharges.¹⁰¹ In addition, ORA reviewed Cal Am's workpapers and discovered that for
21 TY 2018, Cal Am was forecasting \$7,683 for Franchise Fees (labeled as "Gross Receipts
22 Tax") for the Larkfield district.¹⁰² However, according to Cal Am testimony, Larkfield
23 Franchise Fees should be collected through a separate surcharge and not collected in

⁹⁹ Testimony of Jeffrey Linam, p. 14.

¹⁰⁰ Testimony of Jeffrey Linam, p. 15.

¹⁰¹ Cal Am's response to Data Request ORA MC8-010, Q. 1.

¹⁰² Cal Am workpaper ALL_CH05_OTAX_RO, tab "Summary of Costs WS9-C" cell Q177.

1 rates.¹⁰³ Cal Am agreed to remove the \$7,683 Franchise Fees from Larkfield’s TY 2018
2 rates because “Gross Receipts tax and Franchise Fees refer to the same thing and there
3 should be no forecasted amount in the model as discussed in the section IV.C of the
4 direct testimony of Jeffery Linam.”¹⁰⁴ As discussed in ORA’s chapter on Taxes Other
5 Than Income, the Commission should remove \$7,683 from Larkfield’s TY 2018 rates for
6 Franchise Fees that are collected through a separate surcharge.

7 Despite Cal Am’s workpaper error containing Larkfield Franchise Fees described
8 above, the Commission should adopt Special Request 3 because it will provide
9 ratemaking consistency across Cal Am’s districts with no harm to ratepayers. This
10 consistency should also simplify the ratemaking process slightly by removing the
11 Franchise Fees forecast altogether instead of continuing the forecast for only a few select
12 districts. Moreover, there should be no noticeable impact on customer bill amounts, as
13 Franchise Fee amounts removed from ratemaking will continue to be collected – the only
14 difference being that the collection will be via a separate surcharge instead of in rates.

15 **D. CONCLUSION**

16 The Commission should grant Cal Am’s request to include separate surcharges for
17 Franchise Fees in the Sacramento, Toro, and Garrapata districts, instead of including
18 Franchise Fees in rates. In addition, Cal Am should take this approach for Franchise Fees
19 for future acquisitions, including the acquisitions included in the instant proceeding. The
20 Commission should also adopt the adjustment to remove \$7,683 for Franchise Fees
21 inappropriately forecast by Cal Am in Larkfield’s TY 2018 rates.
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¹⁰³ Testimony of Jeffrey Linam, Footnote, p. 14.

¹⁰⁴ Cal Am’s response to Data Request ORA MC8-010, Q. 5a.

Attachment 1: Witness Qualifications

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**QUALIFICATIONS AND PREPARED TESTIMONY
OF MICHAEL CONKLIN**

Q.1 Please state your name and business address.

A.1 My name is Michael Conklin and my business address is 320 West 4th Street, Los Angeles, California 90013.

Q.2 By whom are you employed and in what capacity?

A.2 I am a Financial Examiner IV in the Water Branch of the Office of Ratepayer Advocates (“ORA”).

Q.3 Briefly describe your pertinent educational background.

A.3 I received a Bachelor of Science Degree in Accounting from the City University of New York, Hunter College, graduating with high honors. I also received a Master of Science in Accountancy from San Francisco State University. I am also a licensed Certified Public Accountant (“CPA”) in the State of California.

Q.4 Briefly describe your professional experience.

A.4 Prior to joining the Commission, I worked as a trading operations manager on the equity trading floor for Citigroup Global Markets in New York. I joined the Office of Ratepayer Advocates Water Branch in July 2012. My experience at the Commission includes responsibility for reports on Affiliate Transactions during proceeding A.12-07-007, Taxes and A&G expenses for proceeding A.13-01-003, General Office Allocations and Taxes for proceedings A.13-07-002 and A.14-07-006, and Taxes and Working Cash for A.16-01-002. I also served as ORA’s lead project coordinator for General Rate Case A.15-07-001.

1 Q.5 What is your responsibility in this proceeding?

2 A.5 I am assigned to provide testimony regarding Cal Am's Income Taxes, Taxes
3 Other Than Income, General Office Rate Base, and Service Company allocation
4 for Test Year 2018.

5 Q.6 Does that conclude your direct testimony?

6 A.6 Yes, at this time.

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Attachment 2: Military Customers

What Is a Water Quality Report?

To comply with the Virginia Department of Health and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources.

Public Participation

Public input concerning water quality is always welcome. Water quality suggestions may be forwarded directly to the following:

Mail: American Water
6035 16th Street, Building #739
P.O. Box 1280
Fort Belvoir, VA 22060

Phone: (571) 339-8087

Share This Report

Landlords, businesses, schools, hospitals and other groups are encouraged to share this important information with water users at their location who may not receive this report directly.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va.; Fort Sill, Okla.; Fort Leavenworth, Kan.; Scott Air Force Base, Ill.; Fort Rucker, Ala.; Fort Meade, Md.; Fort Belvoir, Va.; Fort Hood, Texas; Fort Polk, La.; Picatinny Arsenal, N.J.; Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

American Water O&M Inc. – Fort Belvoir provides water service to **29,577 customers at Fort Belvoir, VA**. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, Virginia Department of Health (VDH) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

<http://www.cdc.gov>

United States Environmental Protection Agency

<http://www.epa.gov/safewater>

Virginia Dept. of Health – Office of Drinking Water

<http://www.vdh.virginia.gov/odw>

American Water

<http://www.amwater.com>

Fairfax Water

www.fairfaxwater.org

American Water Works Association

<http://www.awwa.org>

Safe Drinking Water Hotline: (800) 426-4791

Special Health Information

You may be more vulnerable than the general population to certain microbial contaminants, such as *Cryptosporidium*, in drinking water. Infants, some elderly or immunocompromised persons such as those undergoing chemotherapy for cancer; those who have undergone organ transplants; those who are undergoing treatment with steroids; and people with HIV/AIDS or other immune system disorders can be particularly at risk from infections. You should seek advice about drinking water from your physician or health care provider. Additional guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* are available from the Safe Drinking Water Hotline at (800) 426-4791.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort Hood - American Water O & M Military Services Group (AWE-MSG) provides water service to approximately **54,250 customers** at the Fort Hood Military Post located in Bell and Coryell Counties, Texas. Fort Hood - American Water Military Services Group is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Texas Department of Environmental Quality (TCEQ) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

www.cdc.gov

United States Environmental Protection Agency

www.epa.gov/safewater

Texas Commission On Environmental Quality

www.TCEQ.com

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What is a Water Quality Report?

To comply with Texas Commission on Environmental Quality (TCEQ) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources.

How is Your Water Treated?

Water is treated by the Bell County Water Control and Improvement District No 1 (BCWCID1). BCWCID1 uses advanced water treatment techniques including chemical coagulation, filtration and disinfection to provide potable water that meets federal and state drinking water standards. Drinking water that enters the Fort Hood water distribution system is analyzed by American Water staff to ensure it meets drinking water standards. Depending on water quality, American Water staff may add additional disinfectant to ensure disinfectant residuals are maintained consistently throughout the Fort Hood water distribution system.

Public Participation

Public input concerning water quality is always welcome. Water quality suggestions may be forwarded directly to the following:

Mail: 4612 Engineer Drive #076
Ft. Hood, TX 76544-5057

Phone: (254) 213-0382

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants may be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC (Centers for Disease Control and Prevention) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (800-426-4791) or by calling our Customer Service Center at (800) 685-8660.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort Leavenworth American Water Enterprises Military Services Group (AWE-MSG) provides water service to approximately **12,934 customers** at the Fort Leavenworth Military Post located in Leavenworth County, Kansas. Fort Leavenworth AWE-MSG is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Kansas Department of Health and Environment (KDHE) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

United States Environmental Protection Agency

www.epa.gov/safewater

Kansas Department of Health and Environment

www.kdheks.gov

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What Is a Water Quality Report?

To comply with Kansas Department of Health and Environment (KDHE) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources. For more information, please contact Edwin Winton at 913-758-9272.

How Is Your Water Treated?

Your water is treated to remove several contaminants and a disinfectant is added to protect you against microbial contaminants. The Safe Drinking Water Act (SDWA) required states to develop a Source Water Assessment (SWA) for each public water supply that treats and distributes water in order to identify potential contamination sources. The state has completed an assessment of our source water. For results of the assessment, please contact us or view on-line at: <http://www.kdheks.gov/nps/swap/SWreports.html>.

Share This Report

You are encouraged to share this important information with water users who are not customers of Fort Leavenworth American Water and therefore do not receive this report directly.

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants may be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC (Centers for Disease Control and Prevention) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (800-426-4791) or by calling our Customer Service Center at (800) 685-8660.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort Meade American Water Enterprises Military Services Group provides water service to approximately 49,000 customers at the Fort Meade Military Post located in Anne Arundel County, Maryland. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Maryland Department of the Environment (MDE) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

United States Environmental Protection Agency

www.epa.gov/safewater

Maryland Department of the Environment

www.mde.maryland.gov

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What is a Water Quality Report?

To comply with Maryland Department of the Environment (MDE) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources. For more information, please contact David Hill, 301-289-7039.

How is Your Water Treated?

Your water is treated to remove contaminants and a disinfectant is added to protect you against microbial contaminants. The Safe Drinking Water Act (SDWA) required states to develop a Source Water Assessment (SWA) for each public water supply that treats and distributes water in order to identify potential contamination sources. The state has completed an assessment of our source water. For results of the assessment, please contact us at 301-289-7039 to request a copy.

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. People who are immunocompromised such as cancer patients undergoing chemotherapy, organ transplant recipients, HIV/AIDS positive or other immune system disorders, some elderly, and infants can be particularly at risk from infections. People at risk should seek advice about drinking water from their health care providers. EPA/CDC guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbiological contaminants are available from the Safe Drinking Water Hotline (800-426-4791).

Based on a study conducted by ADEM with the approval of the EPA, a statewide waiver for the monitoring of asbestos and dioxin was issued. Thus, monitoring for these contaminants was not required.

Copper is an essential nutrient, but some people who drink water containing copper in excess of the action level over a relatively short amount of time could experience gastrointestinal distress. Some people who drink water containing copper in excess of the action level over many years could suffer liver or kidney damage. People with Wilson's Disease should consult their personal doctor.

Some people who drink water containing fluoride in excess of the MCL over many years could get bone disease, including pain and tenderness of the bones. Fluoride in drinking water at half the MCL or more may cause mottling of children's teeth, usually in children less than nine years old. Mottling, also known as fluorosis, may include brown staining and/or pitting of the teeth, and occurs only in developing teeth before they erupt from the gums.

Infants below the age of six months who drink water containing nitrate in excess of the MCL could become seriously ill and, if untreated, may die. Symptoms include shortness of breath and blue baby syndrome.

Some people who drink water containing trihalomethanes in excess of the MCL over many years may experience problems with their liver, kidneys, or central nervous systems, and may have an increased risk of cancer.

Some people who drink water containing haloacetic acids in excess of the MCL over many years may have an increased risk of cancer.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of [American Water Enterprises](#), a market-based subsidiary of American Water.

Fort Rucker American Water Enterprises, Inc. Military Services Group (AWE-MSG) provides water service to approximately **15,700 customers** at the Fort Rucker Military Post located in Dale County, Alabama. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Alabama Department of Environmental Management (ADEM) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

www.cdc.gov

United States Environmental Protection Agency

www.epa.gov/safewater

Alabama Department of Environmental Management (ADEM)

www.adem.state.al.us

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants may be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC (Centers for Disease Control and Prevention) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (800-426-4791) or by calling our Customer Service Center at (800) 685-8660.

Coliforms are bacteria that are naturally present in the environment and are used as an indicator that other, potentially-harmful, bacteria may be present. Coliforms were found in more samples than allowed and this was a warning of potential problems.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort Polk American Water Military Services Group (AWE-MSG) provides water service to approximately 20,000 customers at the Fort Polk Military Post located in Vernon Parish, Louisiana. Fort Polk American Water Military Services Group is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Louisiana Department of Environmental Quality (LDEQ) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

www.cdc.gov

United States Environmental Protection Agency

www.epa.gov/safewater

Louisiana Department of Environmental Quality

www.deq.louisiana.gov/portal/

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What is a Water Quality Report?

To comply with the Louisiana Department of Health and Hospitals (LDHH) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources. For more information, please contact Bob Dohoney at 337-537-1178.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort A.P. Hill American Water O&M Military Services Group provides water service to approximately 198 customers at the Headquarters system located on Fort A.P. Hill, Caroline County, Virginia. Fort A.P. Hill is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Virginia Department of Health provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

United States Environmental Protection Agency

www.epa.gov/safewater

Virginia Department of Health

www.vdh.state.va.us

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

Substances Expected to be in Drinking Water

To ensure that tap water is of high quality, U.S. Environmental Protection Agency prescribes regulations limiting the amount of certain substances in water provided by public water systems. U.S. Food and Drug Administration regulations establish limits for contaminants in bottled water, which must provide the same protection for public health.

Our water system tested a minimum of 1 sample per month in accordance with the Total Coliform Rule for microbiological contaminants. Coliform bacteria are usually harmless, but their presence in water can be an indication of disease-causing bacteria. When coliform bacteria are found, special follow-up tests are done to determine if harmful bacteria are present in the water supply. If this limit is exceeded, the water supplier must notify the public.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (800-426-4791).

The source of drinking water (both tap water and bottled water) includes rivers, lakes, streams, ponds, reservoirs, springs, and wells. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

Microbial Contaminants, such as viruses and bacteria, which may come from sewage treatment plants, septic systems, agricultural livestock operations, or wildlife.

Inorganic Contaminants, such as salts and metals, which can be naturally occurring or may result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.

Pesticides and Herbicides, which may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses.

Organic Chemical Contaminants, including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and may also come from gas stations, urban storm water runoff, and septic systems.

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants may be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC (Centers for Disease Control and Prevention) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (800-426-4791) or by calling our Customer Service Center at (800) 685-8660.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Fort Sill American Water Enterprises Military Services Group (AWE-MSG) provides water services to approximately 23,000 customers at the Fort Sill Military Post located in Comanche County, Oklahoma. Fort Sill AWE-MSG is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Oklahoma Department of Environmental Quality (ODEQ) provide a substantial amount of information on many issues relating to water resources, water conservation and public health.

You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

www.cdc.gov

United States Environmental Protection Agency

www.epa.gov/safewater

Oklahoma Department of Environmental Quality

www.odeq.state.ok.us

American Water

www.amwater.com

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What is a Water Quality Report?

To comply with Oklahoma Department of Environmental Quality (ODEQ) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources. For more information, please contact Ronnie Graves 580-248-3034.

How is Your Water Treated?

Current treatment processes include coagulation and settling followed by filtration and disinfection. An inhibitor is added for corrosion control and fluoridation is provided for reduction of dental cavities. Throughout the process dedicated plant operations and water quality staff continuously monitor and control these plant processes to assure you, our customers, a superior water quality.

Share This Report

What Is a Water Quality Report?

To comply with the New Jersey Department of Environmental Protection (NJDEP) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources.

Public Participation

Public input concerning water quality is always welcome. Water quality suggestions may be forwarded directly to the following:

Mail: American Water O&M – Picatinny Arsenal
506 Babbitt Road
Picatinny Arsenal, N.J. 07806
Phone: (862) 397-5990

Share This Report

Businesses, schools, hospitals and other groups are encouraged to share this important information with water users at their location who may not receive this report directly.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

American Water O&M Inc. – Picatinny Arsenal provides water service to approximately **6,011 customers** at Picatinny Arsenal, NJ. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention and New Jersey Department of Environmental Protection Division of Water Supply, provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

Centers for Disease Control and Prevention

<http://www.cdc.gov>

United States Environmental Protection Agency

<http://www.epa.gov/safewater>

New Jersey Department of Environmental Protection Division of Water Supply and Geoscience

<http://www.nj.gov/dep/watersupply>

American Water

<http://www.amwater.com>

American Water Works Association

<http://www.awwa.org>

EPA Safe Drinking Water Hotline: (800) 426-4791

Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants may be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC (Centers for Disease Control and Prevention) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (800-426-4791) or by calling our Customer Service Center at (800) 685-8660.

Water Information Sources

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

Hill Air Force Base American Water Enterprises Military Services Group (AWE-MSG) provides water service to approximately **26,665 total customers at five locations**. Hill Air Force Base located in Davis County, Utah; Lakeside Range located in Box Elder County, Utah; Little Mountain Test Facility in Weber County, Utah; Carter Creek in Summit County, Utah; and Boulder Pinedale Seismic Research Facility in Sublette County, Wyoming. Hill Air Force Base AWE-MSG is part of American Water. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

The web sites of the web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, and Utah Department of Environmental Quality (Division of Drinking Water) provide a substantial amount of information on many issues relating to water resources, water conservation and public health. You may visit these sites as well as American Water's website at the following addresses:

United States Environmental Protection Agency
www.epa.gov/safewater

Utah Department of Environmental Quality
www.deq.utah.gov

American Water
www.amwater.com

American Water Works Association
www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

What is a Water Quality Report?

To comply with the Utah Department of Environmental Quality (UDEQ) Division of Drinking Water and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually describing the quality of your drinking water. The purpose of this report is to provide you an overview of last year's (2015) drinking water quality. It includes details about where your water comes from and what it contains. We hope the report will raise your understanding of drinking water issues and awareness of the need to protect your drinking water sources. For more information, please contact Mathew Meyer at 801-695-9786.

How is Your Water Treated?

Your water is treated to remove several contaminants and a disinfectant is added to protect you against microbial contaminants. The Safe Drinking Water Act (SDWA) required states to develop a Source Water Assessment (SWA) for each public water supply that treats and distributes water in order to identify potential contamination sources.

What Is a Water Quality Report?

A Water Quality Report provides consumers with detailed information about where the water that they use comes from and what it contains. The purpose of this report is to communicate the quality of the drinking water you received in 2015, increase your understanding of drinking water standards, and raise awareness of the need to protect your drinking water sources. To comply with Illinois Environmental Protection Agency (IEPA) and the U.S. Environmental Protection Agency (EPA) regulations, American Water issues a report annually.

Public Participation

Public input or questions about water quality or water use are always welcome. Although this report will not be mailed, individuals may receive a copy or request additional information or provide comments by contacting Jeff Slocum, General Manager, at 34605 Arkansas Street, Scott AFB, IL 62225, phone: 618-744-9631 or email jeff.slocum@amwater.com

Share This Report

Recipients of this report are encouraged to share this important information with water users at their location who are not customers of American Water O & M – Scott Air Force Base and therefore do not receive this report directly.

We Care About Water – It's What We Do

The Military Services Group of American Water provides water and wastewater contract services to military installations across the country as part of the federal government's Utility Privatization Program. It operates and maintains the water and/or wastewater assets at Fort A.P. Hill, Va., Fort Sill, Okla., Fort Leavenworth, Kan., Scott Air Force Base, Ill., Fort Rucker, Ala., Fort Meade, Md., Fort Belvoir, Va., Fort Hood, Texas, Fort Polk, La., Picatinny Arsenal, N.J., Hill Air Force Base, Utah and Vandenberg Air Force Base, Calif.

The Military Services Group is part of American Water Enterprises, a market-based subsidiary of American Water.

American Water O & M – SAFB, PWS ID: IL 1635237, provides water service to approximately 6,800 customers living and working at Scott AFB, IL. American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs more than 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting www.amwater.com.

Water Information Sources

The web sites of US EPA Office of Water, the Centers for Disease Control and Prevention, Illinois Environmental Protection Agency (IEPA), and others provide substantial information on many issues relating to water resources, water conservation and public health. Please visit them here:

Centers for Disease Control and Prevention

www.cdc.gov

United States Environmental Protection Agency www.epa.gov/safewater

Illinois Environmental Protection Agency <http://www.epa.state.il.us/water/>

American Water Works Association

www.awwa.org

Safe Drinking Water Hotline: (800) 426-4791

FIND WATER CONSERVATION TIPS AT:

<http://www.wateruseitwisely.com/100-ways-to-conserve/>

US Army Corps of Engineers

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Building big for water at Vandenberg

Posted 5/21/2012



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By Dave Palmer

VANDENBERG AIR FORCE BASE, Calif. — Vandenberg Air Force Base is currently home to the second largest reinforced concrete dome in the world. By summer's end, they may have some bragging rights anyway; a twin is on the way.

The U.S. Army Corps of Engineers Los Angeles District has the first of two, 4-million-gallon reservoir tanks online, with the second scheduled for completion in September.

Surprisingly they aren't adding capacity as much as economies of efficiency. The previous reservoir tanks were built in the 1940s, when the base was the Army's Camp Cooke, and they were leaking like sieves.

"The biggest hurdle we faced was drying out the site," said Construction Control Representative Valencia Wynn. "The water table was already pretty high in this area, but it was obvious the tanks had been leaking for years."

Wynn mentioned the previous reservoirs did enjoy some longevity, but the replacements will be in service for a century and she intends to check up on them for some time to come.

"We'll place approximately 1,700 cubic yards of concrete per tank," said Greg Tague, a quality control manager for SOLTEK Pacific Construction. "Once we completed the first tank... we calculated that the roof alone weighs 940 tons."

Photos

◀ 1 of 4 ▶



Corps contractors construct the second of two new 4-million-gallon water reservoirs May 11 at Vandenberg AFB, Calif. The new water tanks support a population of more than 18,000 military, family members, contractors and civilian employees at the base. (Photo by Dave Palmer)

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Attachment 3: Service Company OPEX 2013-2015

American Water Works Service Company, Inc.
YTD Service Fee Distribution
Actuals vs. Budget
For the twelve months ended December 31, 2013

Division	Company	Co #	OPEX Service Fees			Opex Actual % of Total Opex	Variance as a % of Budget
			Total OPEX Service Fees	Total OPEX Service Fees	Total OPEX Service Fees		
			Actual	Budget	Variance Fav/(Unfav)		
California Total		1015	12,315,752	11,032,228	(1,283,524)	5.3%	(11.6%)
Hawaii Total		1030	719,553	1,023,787	304,234	0.2%	29.7%
Central Division							
	ILLINOIS-AMERICAN	1025	23,834,759	22,755,003	(879,756)	10.1%	(3.9%)
	INDIANA-AMERICAN	1010	21,312,863	20,821,417	(391,537)	9.1%	(1.9%)
	IOWA-AMERICAN	1011	4,672,826	4,666,614	(6,212)	2.0%	(0.1%)
	KENTUCKY-AMERICAN	1012	9,137,989	9,528,680	390,711	3.9%	4.1%
	MICHIGAN-AMERICAN	1016	245,613	276,212	30,599	0.1%	11.1%
	MISSOURI-AMERICAN	1017	30,394,788	29,920,927	(473,861)	13.0%	(1.6%)
	TENNESSEE-AMERICAN	1026	6,164,874	6,205,139	40,264	2.6%	0.6%
Central Division Total			95,563,783	94,273,992	(1,289,791)	40.9%	(1.4%)
Mid-Atlantic Division							
	MARYLAND-AMERICAN	1013	618,034	895,048	277,014	0.3%	30.9%
	PENNSYLVANIA-AMERICAN	1024	43,888,517	43,767,479	(121,338)	18.6%	(0.3%)
	VIRGINIA-AMERICAN	1027	5,054,616	5,467,906	413,291	2.2%	7.6%
	WEST VIRGINIA-AMERICAN	1028	13,858,780	13,241,702	(417,078)	5.8%	(3.1%)
Mid-Atlantic Division Total			63,220,246	63,372,136	151,889	27.0%	0.2%
Northeast Division							
	NEW JERSEY-AMERICAN	1018	43,543,708	41,699,382	(1,844,324)	18.6%	(4.4%)
	NEW YORK-AMERICAN	1038	8,750,947	7,861,502	(889,346)	3.7%	(11.3%)
Northeast Division Total			52,294,553	49,560,884	(2,733,669)	22.4%	(5.5%)
Regulated Totals			224,113,888	219,263,027	(4,850,861)	95.8%	(2.2%)
Market Based Non-Reg							
	AWR	1021	137,061	128,407	(8,654)	0.1%	(6.7%)
	AWF	1031	7,375,958	6,912,374	(463,582)	3.2%	(6.7%)
	IL LAKEWATER	1044	0	0	0	0.0%	0.0%
	EDISON	1054	268,634	313,976	45,342	0.1%	14.4%
	LIBERTY	1055	507,087	810,911	103,824	0.2%	17.0%
	ETOWN SERVICES	1056	51,978	48,182	(3,797)	0.0%	(7.9%)
	ETOWN PROPERTIES	1057	143	32	(112)	0.0%	(354.7%)
	LAUREL OAKS PROPERTIES	1060	41,389	48,561	7,172	0.0%	14.6%
Market Based Non-Reg Total			8,382,249	8,062,442	(319,807)	3.6%	(4.0%)
Parent & Non-Profit							
	AWK	1020	1,207,332	1,090,124	(117,208)	0.5%	(10.8%)
	SC	1033	0	0	0	0.0%	0.0%
	AWCC	1046	231,501	0	(231,501)	0.1%	0.0%
Non-Reg Total			1,438,832	1,090,124	(348,708)	0.6%	(32.0%)
Grand Total			233,934,969	228,415,593	(5,519,376)	100.0%	(2.4%)

American Water Works Service Company, Inc.
YTD Service Fee Distribution
Actuals vs. Budget
For the twelve months ended December 31, 2014

			OPEX Service Fees			Opex Actual % of Total Opex	Variance as a % of Budget
Division	Company	Co #	Total OPEX Service Fees Actual	Total OPEX Service Fees Budget	Total OPEX Service Fees Variance Favi(Unfav)		
California Total		1015	12,474,529	12,419,555	(54,974)	5.5%	(0.4%)
Hawaii Total		1030	635,114	707,341	72,226	0.3%	10.2%
Central Division							
	ILLINOIS-AMERICAN	1025	21,847,864	20,799,828	(1,048,036)	9.8%	(5.0%)
	INDIANA-AMERICAN	1010	20,435,368	20,826,305	390,935	9.0%	1.9%
	IOWA-AMERICAN	1011	4,248,913	4,538,260	289,348	1.8%	6.4%
	KENTUCKY-AMERICAN	1012	8,774,750	9,094,967	320,217	3.9%	3.5%
	MICHIGAN-AMERICAN	1018	222,886	233,249	10,314	0.1%	4.5%
	MISSOURI-AMERICAN	1017	29,685,095	30,354,651	369,556	13.2%	1.2%
	TENNESSEE-AMERICAN	1026	5,933,888	6,413,668	479,780	2.6%	7.5%
Central Division Total			91,448,544	92,260,957	812,413	40.1%	0.9%
Mid-Atlantic Division							
	MARYLAND-AMERICAN	1013	587,864	621,885	34,021	0.3%	5.5%
	PENNSYLVANIA-AMERICAN	1024	43,066,826	43,932,615	865,987	18.9%	2.0%
	VIRGINIA-AMERICAN	1027	5,519,974	5,088,421	(431,553)	2.4%	(8.9%)
	WEST VIRGINIA-AMERICAN	1028	13,070,385	13,695,141	624,757	5.7%	4.6%
Mid-Atlantic Division Total			62,244,651	63,317,862	1,073,211	27.3%	1.7%
Northeast Division							
	NEW JERSEY-AMERICAN	1018	40,919,102	41,798,953	879,851	18.0%	2.1%
	NEW YORK-AMERICAN	1038	8,410,019	8,727,918	317,898	3.7%	3.6%
Northeast Division Total			49,329,121	50,526,871	1,197,749	21.7%	2.4%
Regulated Totals			216,131,959	219,232,585	3,100,626	94.9%	1.4%
Market Based Non-Reg							
	AWR	1021	66,950	206,498	139,539	0.0%	67.6%
	AWE	1031	7,107,443	8,010,657	(1,093,786)	3.1%	(15.2%)
	IL LAKEWATER	1044	0	0	0	0.0%	0.0%
	EDISON	1054	137,640	127,370	(10,278)	0.1%	(8.1%)
	LIBERTY	1055	383,627	290,271	(93,356)	0.2%	(27.0%)
	ETOWN SERVICES	1058	51,751	47,502	(4,249)	0.0%	(8.9%)
	ETOWN PROPERTIES	1057	0	35	35	0.0%	100.0%
	LAUREL OAKS PROPERTIES	1080	31,462	13,565	(17,897)	0.0%	(131.9%)
Market Based Non-Reg Total			7,763,891	6,695,899	(1,067,992)	3.4%	(15.9%)
Parent & Non-Profit							
	AWK	1020	3,560,958	3,852,780	291,822	1.6%	7.6%
	SC	1033	0	0	0	0.0%	0.0%
	AWCC	1046	383,500	283,079	(100,421)	0.2%	(38.2%)
Non-Reg Total			3,924,458	4,115,858	191,401	1.7%	4.7%
Grand Total			227,820,308	230,044,342	2,224,034	100.0%	1.0%

American Water Works Service Company, Inc.
YTD Service Fee Distribution
Actuals vs. Budget
For the twelve months ended December 31, 2015

			OPEX Service Fees			Opex Actual % of Total Opex	Variance as a % of Budget
Division	Company	Co #	Total OPEX Service Fees Actual	Total OPEX Service Fees Budget	Total OPEX Service Fees Variance Fav(Unfav)		
California Total		1015	12,529,622	11,331,234	(1,198,388)	5.8%	(10.6%)
Hawaii Total		1030	598,002	582,012	(15,990)	0.3%	(2.7%)
Central Division	ILLINOIS-AMERICAN	1025	20,143,897	20,058,108	(85,789)	9.3%	(0.4%)
	INDIANA-AMERICAN	1010	18,891,834	18,788,983	(102,851)	8.7%	(0.7%)
	IOWA-AMERICAN	1011	4,185,561	3,890,878	(294,684)	1.9%	(7.5%)
	KENTUCKY-AMERICAN	1012	8,326,477	7,881,487	(445,010)	3.8%	(5.9%)
	MICHIGAN-AMERICAN	1018	187,777	188,743	966	0.1%	0.5%
	MISSOURI-AMERICAN	1017	28,616,416	27,143,845	(1,472,571)	13.2%	(5.4%)
	TENNESSEE-AMERICAN	1026	5,898,676	5,335,880	(562,796)	2.7%	(10.5%)
Central Division Total			86,250,439	83,247,904	(3,002,535)	39.9%	(3.6%)
Mid-Atlantic Division	MARYLAND-AMERICAN	1013	501,843	456,904	(44,938)	0.2%	(9.5%)
	PENNSYLVANIA-AMERICAN	1024	41,283,714	38,470,888	(2,812,826)	19.1%	(7.2%)
	VIRGINIA-AMERICAN	1027	5,098,917	4,989,991	(108,926)	2.4%	(2.2%)
	WEST VIRGINIA-AMERICAN	1028	11,898,344	11,651,353	(246,991)	5.5%	(2.1%)
Mid-Atlantic Division Total			58,752,817	55,569,114	(3,183,703)	27.2%	(5.7%)
Northeast Division	NEW JERSEY-AMERICAN	1018	38,839,389	36,371,377	(2,468,012)	18.0%	(6.8%)
	NEW YORK-AMERICAN	1038	7,672,101	7,465,296	(206,805)	3.5%	(2.8%)
Northeast Division Total			46,511,490	43,836,673	(2,674,816)	21.5%	(6.1%)
Regulated Totals			204,642,370	194,566,936	(10,075,434)	94.6%	(5.2%)
Market Based Non-Reg	AWR	1021	42,365	93,056	50,692	0.0%	54.5%
	AWE	1031	6,750,070	6,201,730	(548,340)	3.1%	(8.5%)
	IL LAKEWATER	1044	0	0	0	0.0%	0.0%
	EDISON	1054	119,024	132,773	13,749	0.1%	10.4%
	LIBERTY	1055	343,204	333,309	(9,895)	0.2%	(3.0%)
	ETOWN SERVICES	1058	48,285	66,875	18,590	0.0%	27.8%
	ETOWN PROPERTIES	1057	340	0	(340)	0.0%	0.0%
	LAUREL OAKS PROPERTIES	1060	18,893	23,723	4,830	0.0%	20.4%
Market Based Non-Reg Total			7,322,182	6,851,468	(470,714)	3.4%	(6.9%)
Parent & Non-Profit	AWK	1020	4,134,490	3,183,244	(951,246)	1.9%	(29.9%)
	SC	1033	0	0	0	0.0%	0.0%
	AWCC	1046	287,194	0	(287,194)	0.1%	0.0%
	AWI	1040	2,301	0	(2,301)	0.0%	0.0%
Non-Reg Total			4,403,984	3,183,244	(1,220,741)	2.0%	(36.3%)
Grand Total			216,368,537	204,601,648	(11,766,889)	100.0%	(5.8%)

